The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 5th, 1939

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WITNESS:

Alfred Herbert Miller.................10,622
Recalled..................10,720
Recalled..................10,734

Henry Joseph Appleton, Recalled........10,680
Recalled.................10,718
Recalled.................10,728

E X H I B I T S

EXHIBIT 451
Part Submission on behalf of the B. A. Oil Company, presented by the witness A. H. Miller, dealing with bulk distributing points in the Province of Alberta..................10,633

EXHIBIT 452
Statement of Marketing Costs applicable account providing drums for farm sales Province of Alberta Year 1938, B. A. Oil Company..........10,635

EXHIBIT 453
Statement dealing with Provincial Gasoline Tax Acts in the Provinces of Canada with graph attached.........10,637

EXHIBIT 454
Graph presented by the witness A. H. Miller, showing gasoline prices decline while taxes rise, 12 representative Canadian cities..................10,639

EXHIBIT 455
Statement presented by the witness A. H. Miller for the B.A. Oil Company, showing marketing costs applicable to lubricating oils, greases and miscellaneous merchandise sold in the Province of Alberta in the year 1938......................10,644

EXHIBIT 456
Statement produced by the witness Appleton showing gallons of fuel oil consumed in Alberta, 1938, with origin of products and % of Sales (breakdown of Exhibit "179")...........10,681

ALFRED HERBERT MILLER, having been recalled, examined by Mr. Harvie, said:

Q Mr. Chairman, there was some information asked for, that we might file now. I think we can put this information on the record now.

THE CHAIRMAN: Very good

Q In the first place we were asked for the names of the importers into Alberta of Montana products. My recollection is and I think Mr. Frawley confirms that, that at some time previously in the proceedings that information has been filed as an Exhibit.

MR. FRAWLEY: Oh no. The importers, there is, there was a very sketchy statement filed by Mr. Cottle in connection with the pipeline run which showed the gross importations I think from Montana. Unless I am quite wrong I do not think there was a single figure.

MR. HARVIE: My impression is and I will check that; in any event it is a difficult figure for our company to get. Really the best way to get it is from the Customs and maybe Mr. Frawley might be able to get that better than we can because it is very difficult for us.

MR. FRAWLEY: I wish I had yesterday's transcript. Mr. Miller was telling us yesterday he had sent a man down there and he had got a lot of quotations but I imagine he got a lot more than quotations, he got some information with respect to the extent of the penetration of Montana gasoline into this Province and I questioned him as to the extent of that penetration and

I was putting it to Mr. Miller and I wanted to know, he said he thought it had gone pretty far, as far as Red Deer anyway, that is exclusive of the Texas of course, we know that, and I asked Mr. Miller if he could supplement his evidence by showing the extent of those importations, where they were going because I thought it would be of little value to the Commission without that information being available.

WITNESS: We will be glad to supplement it to the extent of what is our information.

THE CHAIRMAN: That is all that can be required.

MR. HARVIE: I think Mr. Frawley can get it completely, from the Customs Department.

WITNESS: I think, as you said Mr. Harvie, that the place to get the real information of the actual importers together with the prices, is the Customs, through the Customs Department at Ottawa, all of which is available. When they clear the Customs at Coutts they have to submit invoices together with their prices for the commodities that they are bringing in.

MR. FRAWLEY: There is a man that I can get it from. He is coming at noon time to give a further tabulation, that is the Fuel Oil Tax Act Inspector, Mr. Appleton, whose business it is to check and see that all gasoline pays taxes, that is the Provincial Fuel Oil Tax. Now he would know more about it than anybody.

THE CHAIRMAN: Yes, I would think so and you would get a more accurate result. So far as Mr.

Harvie's client is concerned he can only speak of his own knowledge.

MR. FRAWLEY: As a matter of fact, yes, and it seems to me it would be difficult for Mr. Harvie's people to say very much about that and I only brought it up because Mr. Miller was making a point that there was a great dissemination of Montana gasoline in this Province and my counter was that there probably was but it was confined to the Southern fringe.

WITNESS: Not only in this Province but in the Provinces of Manitoba and Saskatchewan, all the way from Coutts by truck, in 1938 the trucks were going as far East as Brandon, Manitoba, and they were going as far North as North Battleford, Lloydminister, and other parts in Northern Saskatchewan but the major portion I believe of those importations were to Alberta, although we can give you, if you want them, the real figures into the other Provinces.

MR. FRAWLEY: Anything you can give us will be very useful and we will supplement it if we can.

MR. HARVIE: There was another item and that was, we were asked to supply in more detail the information we received as to the prices at which refined products could be purchased for export from Montana Refineries. In looking into that we have come to the conclusion that the best way to present that would be to call and present as a witness the investigator we had to do that. He is in Regina and he will be here shortly.

THE CHAIRMAN: Very good.

MR. HARVIE: The next item I think is, we

were asked to fill in in Graph 9, and possibly if you would refer to Graph 9, there was an item we were asked to fill in which was the 1938 percent,which was left blank on the Graph.

THE CHAIRMAN: Which Graph is that?

MR. HARVIE: That is Graph 9.

WITNESS: Showing the 1934 to 1938 taxable figures for the Provinces of Manitoba, Saskatchewan and Alberta; the percentage of the total yearly sales for the four months' period, July, August, September and October in 1934 was 39.1%; 1935, 51.4%; 1936, 50.1%; 1937, 44.1%; 1938, it increased again to 47.9%.

Q And that is the figure asked for?

A Yes.

Q MR. FRAWLEY: 1938 was what?

MR. HARVIE: 47.9%.

Q MR. HARVIE: Then while you have your graph, Mr. Chairman, we were also to give additional information in respect to Graph 10. We were to add particulars as to whether the figures in the Chart referred to the figures of the B. A. Company alone or the entire Provincial, and Mr. Miller I think can give you that now?

A That was, Mr. Chairman, if that was placed opposite the various things, consumption taxable products, consumption taxable products refunded, and so forth, it might more clearly, particularly afterwards in reference to the evidence, be more clear. The first one, consumption of taxable products is Provincial; the second one, consumption of taxable products refunded is Provincial; the car

registration is Provincial; the amount of marketing expense is the B. A. picture only; the amount of marketing expense less bad debts and drums write-offs is B. A.; sales of all products, tank waggon, gallons is B. A.; cost per gallon is B. A. the tractors are Provincial.

Q MR. FRAWLEY: Now going back to that cost per gallon again, while we are making corrections and so that it may not be forgotten when this is looked at weeks from now, cannot we add there "tank waggon prices" after that?

THE CHAIRMAN: I have a note here "cost of tank waggon buyers in cents per gallon".

WITNESS: Well Mr. Chairman, I regret that error. I found in explaining this yesterday that there was considerable other things arose and I should correct that right now and say that that green line and the words "cost per gallon" with the dates, starts off at 100, at 5.36 cents; that is our marketing cost at 100, 5.36 cents. At 1929 it was 5.07 cents; at 1930 it was 6.20 cents; 1931, 6.15 cents; 1932, 6.78; 1933, 6.35; 1934, 5.46; 1935, 5.04 cents; 1936, 4.94 cents; and at the end of 1937 it was 4.41 cents. The 1938 we will give you in the third brief when we present the marketing cost.

Q MR. FRAWLEY: You are giving us what that consists of of course, those figures?

A We will give you that.

Q MR. HARVIE We were also asked for additional information, the first being the personnel change as a result of the new distribution system and I think Mr. Miller you might have some remarks on that and

I will just, you can either read that into the record or put it in, this should be read into the record but there is some additional information which might be filed just as Exhibits. This I think should just be read into the record?

A In 1938 the British American Oil Company, Limited, operated in the Province of Alberta 212 Bulk Plants of which 160 were warehouse and tank points and 52 being warehouse points only. In June, 1939, the Company was operating in the Province of Alberta, 23 Company operated Main Branch Distributing points and has 8 more yet to be completed, which will then give a total of 31 Main Branch Distributing Points in the Province. These Main Branch Distributing Points are servicing to-day approximately 232 Dealer Distributing Points where the Company has or is installing underground storage facilities with warehouse for supplying the local farm trade.

Then in 1938 the Company owned and operated 15 trucks for the transportation and distribution of petroleum products, and as of June, 1939, the Company was using 51 trucks for this work.

The number of persons employed in the Divisional Offices at Calgary and Edmonton was 40 in 1938, but with the centralization of the Company's accounting and credit facilities at Regina for Western Canada, the number of persons then engaged at the Calgary and Edmonton district offices was reduced to approximately 12. Similarly, the management as at December, 1938, consisted of 6 and as of June, 1939, was 3. The old method of marketing necessitated the use of 4 auditors and as

of June this year, under the new system, this was reduced to 1. In 1938 there were 10 salesmen in the Province of Alberta and as of June, 1939, there were 11. Other persons employed in the Company's warehouses at Edmonton and Calgary, and for the transportation and distribution of its products as at December, 1938, was 30, and as of June, 1939, the number so employed was 103, who were located at the various main branch distributing points to which we have previously referred. Therefore, the Company's payroll, exclusive of the refining staff, in December 1938 was 90 as against a total of approximately 131 in June 1939, who were in the Company's employ.

The number of Company-operated service stations located in the Province of Alberta has remained unchanged at 27.

As previously mentioned, we are still in the transition period of our new distribution which we do not anticipate will be completed until the end of 1939, at which time we estimate the number of Dealer Distributing Points from which farmers can be supplied will be possibly 500, and which will be added to in line with convenience and necessity.

Attached to that is a breakdown of that information that you asked for, Mr. Frawley.

THE BRITISH AMERICAN OIL COMPANY LIMITED

COMPARATIVE STATEMENT

ALBERTA, 1938-1939.

	1938	1939	
Number of tank points in operation	160		
" " warehouse " " "	52		
" " all " " "	212		
Number of Main Branch Distribution Points in operation		23	
Number of Dealer Distributing Points serviced by main branches		232	
Number of Company-owned trucks operated for transportation and distribution of Company products	15	51	
Number of persons employed at Divisional Offices at Calgary and Edmonton	40	12	(Approx)
Number of persons employed in Management of Alberta business	6	3	
Number of auditors employed in Alberta	4	1	
Number of Salesmen employed in Alberta	10	11	
Number of employees at warehouses, trucks, etc.	30	103	
Number of employees on Company payroll in the Province, excluding refinery staff	90	131	(Approx)
Number of Company operated Service Stations in Alberta.	27	27	

Attached to that is a list of the bulk tank points in 1938, in the Province of Alberta, totalling 160, the names of which you asked for yesterday.

BULK TANK POINTS IN ALBERTA - 1938

Alliance
Amisk
Andrew
Athabasca
Barrhead
Bashaw
Bawlf
Beaverlodge
Berwyn
Bonnyville
Boyle
Breton
Bruderheim
Calmar
Camrose
Castor
Clandonald
Clyde
Colinton
Compeer
Consort
Coronation
Daysland
Derwent
Dewberry
Edgerton
Edmonton
Edson
Elk Point
Evansburg
Fairview
Fahler
Faust
Grande Prairie
Grimshaw
Hardisty
High Prairie
Holden
Hythe
Innisfree
Irma
Killam
Kitscoty
Lacombe
Lamont
Lavoy
Leduc
Legal
Manville
Marwayne
Millet
Monitor
Morinville
Mundare
Myrnam
Paradise Valley
Peace River
Picardville
Ponoka
Provost
Rimbey
Rycroft
Ryley
St. Paul
Sedgewick
Sexsmith
Smoky Lake
Stettler
Stony Plain
Strome
Tawatinau
Therein
Thorhild
Thorsby
Tofield
Two Hills
Vegreville
Vermilion
Vilna
Wainwright
Wanham
Waskatenau
Waterways
Wembley
Westlock
Wetaskiwin
Whitelaw
Willingdon

Acadia Valley
Acme
Banff
Barons
Bassano
Beiseker
Bowden
Bow Island
Brooks
Calgary
Carbon
Cardston
Carmangay
Carstairs
Cereal
Champion
Chinook
Claresholm
Craigmyle
Crossfield
Delia
Didsbury
Drumheller
Eckville
Elnora
Empress
Etzikom
Foremost
Frank
Gleichen
Granum
Hanna
High River
Huxley
Innisfail
Irricana
Joffre
Kathyrn
Lethbridge
Lomond
Macleod
Madden
Magrath
Medicine Hat
Milk River
Morrin
Mossleigh
Nanton
Nobleford
Olds
Oyen
Parkland
Picture Butte
Pincher
Queenstown
Raymond
Red Deer
Rockyford
Rocky Mtn.House
Sibbald
Standard
Strathmore
Sylvan Lake
Taber
Three Hills
Trochu
Turin
Turner Valley
Vauxhall
Vulcan
Warner
Youngstown

Total Tank Points - 160

A. H. Miller

Attached to that are the bulk warehouse points in Alberta in 1938 totalling 52.

BULK WAREHOUSE POINTS IN ALBERTA 1938

Edmonton

Alix
Alcomdale
Bon Accord
Chauvin
Clairmont
Clive
Donalda
Edberg
Forestburg
Fort Sask.
Gibbons
Hay Lake
Heinsburg
Hughenden
Islay
Kelsey
Kingman
Kinsella
Manola
McLaughlin
Minburn
New Norway
Onoway
Pibroch
Radway
Ranfurly
St. Michael
Sangudo
Spirit River
Streamstown
Spruce Grove
Veteran
Vimy
Wildwood

Arrowwood
Benalto
Blackie
Brant
Cochrane
Delburne
Hilda
Irvine
Leslieville
New Dayton
Okotoks
Rosebud
Rowley
Rumsey
Sunnyslope
Swalwell
Travers
Wimborne

Total Warehouse only Points - 52

Those make a grand total of Tank and Warehouse Points, as of December, 1938, 212.

All of these with the exception of 31 points are being converted to Dealer Distributor points with farm sales facilities.

Attached to that is an additional list of Dealer-Distributing points that have been

established up until June, 1939, the total number of which are 43.

ADDITIONAL DEALER-DISTRIBUTING POINTS ESTABLISHED UP TO JUNE, 1939.

Airdrie
Linden
Pine Lake
Sundre
Benton
Gem
Rosemary
Scandia
Tilley
Barnwell
Purple Springs
Retlaw
Seven Persons
Walsh
Kimball
Pincher Creek
Nightingale
Warburg
Auburndale
Silver Heights
St. Lina
Flatbush
Dapp
Greencourt
Federal
Altario
Warspite
Hazeldine
Warwick
Inland
Skara
Rusylvia
Lea Park
Ohaton
Entwhistle
Round Hill
Bentley
Whitla
Usherhill
Hussar
Carvel
Armena
Leedale

making a grand total now of 232 points actually in operation. The total of 232 distributor points is arrived at by adding total tank and warehouse points converted, less 31 remaining as

main branch distribution points and adding new points operated in 1939.

I think that was the information you asked for, Mr. Frawley.

MR. FRAWLEY: Yes.

A And I have to make a further correction.

Q MR. HARVIE: Just a minute, in this connection?

A No.

THE CHAIRMAN: You are offering these statements as one Exhibit, Mr. Harvie?

MR. HARVIE: Yes, Mr. Chairman.

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "451").

Q MR. FRAWLEY: Before we leave this Exhibit then, Mr. Miller, I am just anxious to get the position as of today's date and you have it before you, have you, you say you have a total warehouse only points 52?

A As of 1938.

Q Now then what is the comparable figure for today's date of that, June 1939 for that, the same?

A Just as I said, Mr. Frawley, on the last page there, there is a total number now of dealer distributing points in the Province of 232 points.

Q Of 232 of the dealer distributors?

A That is right.

Q And you have an addition to that 31 or 52?

A 31 remaining is main branch distributing points.

Q And those are the only, those are the only two classifications that you have now?

A Correct.

Q So that we have 263 points then at the moment at which your products are distributed?

A I would like to make this clear again, Mr. Frawley, however, that what I have said here is the objective which will be made this year. You I think can understand that it is very difficult for me to say here that the picture is exactly as shown to you; for instance there might be a few of the old agency points now undergoing transfer from the old agency points to the new dealer distributor points. By that I mean this, where we were on the railway we may have some tanks still standing there that are not being used and have not been moved out yet, or a warehouse might be there and not have been taken down and rebuilt in the town, which is our intention at all points; in other words there is, you have to have a little elasticity with that picture which I have given you because we are still working. We have about 28 gangs in the Province still working and therefore I do not know today the exact position of every point.

Q No, and I do not want to try and tie you down to anything, I just want to try and get the best picture I can of your marketing operations now and say reasonably so for the next two or three weeks even, just taking it then as at the end of June----

THE CHAIRMAN: You have it.

WITNESS: Here you have it.

Q MR. FRAWLEY: I wanted to be sure I have it, I have 31 main distributing branches and 232 dealer distributors?

A Correct.

Q So that we have 263 points in the Province at which your goods are available in bulk to wholesale purchasers?

A Quite right.

Q THE CHAIRMAN: And that is the best information you have as of the present situation?

A Yes.

MR. HARVIE: We were also, Mr. Chairman, asked for and we offer a statement showing the savings which might be effected by the elimination of the practice of loaning drums.

THE CHAIRMAN; Yes.

MR. HARVIE: We submit that as an Exhibit.

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "452").

THE CHAIRMAN: And I would like to hear that one read.

STATEMENT OF MARKETING COSTS APPLICABLE ACCOUNT PROVIDING DRUMS FOR FARM SALES, PROVINCE OF ALBERTA. YEAR 1938.

Drum Investment	$261,859.35
EXPENSES	
Depreciation	26,185.94
Interest (I think that interest is made up on the basis of 4%)	13,092.97
Freight on return empties to main stations for repairs	4,292.65
Repairs and Painting, that is general maintenance of the drums	6,921.97
Making a Grand Total of -	$50,493.53

We calculate that on a cost per gallon calculated on total sales of white products and lubricating oils, and it is .24 cents per gallon, which is as nearly approximate as we can get it.

Q MR. HARVIE: The next item I believe was a schedule of the history of gasoline taxes by all the Provinces. We would like to submit that schedule, accompanied by some graph, which shows it also.

A We made a statement covering the Provincial Gasoline Tax Act and the dates effective and the rates of those taxes since inception, covering the Provinces, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia , it

covers the various months.

Q How many graphs have you to cover that?

A With that we have prepared a graph showing the gasoline prices together with the gasoline taxation from 1925 to 1939 covering the Province of Alberta, which shows that the gasoline tax has increased in proportion to the decreases that have been made in gasoline prices by the industry. It also shows the schedule of the taxes on the graph from 1925.

THE CHAIRMAN: You are offering the statement and the graph as one?

MR. HARVIE: I think maybe as one Exhibit, Mr. Chairman.

(STATEMENT AND GRAPH PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "453").

MR. HARVIE: That will be one statement and one graph.

WITNESS: I may add to that graph that is shows in the first line the service station price plus the taxes; the second line shows the price without the taxes.

THE CHAIRMAN: Have you copies of the statement associated with the graph?

A Yes, we have only one of the statement.

THE CHAIRMAN: It is very convenient where we have copies.

MR. HARVIE: Yes, it is just an error this morning, it was prepared rather hurriedly.

PROVINCIAL GASOLINE TAX ACTS

Dates Effective and Rates of Tax

Province	Dates Gasoline Tax Rates became effective	Rates per Gallon (x)
Prince Edward Island	May 1, 1924	2
	March 31, 1926	3
	May 1, 1928	5
	May 2, 1932	6
	April 15, 1933	8
	April 23, 1937	10
Nova Scotia	March 15, 1926	3
	March 11, 1927	5
	April 1, 1932	6
	May 1, 1934	8
	March 15, 1938	10
New Brunswick	April 30, 1926	3
	December 1, 1928	5
	April 1, 1932	7
	April 1, 1934-	8
	March 20, 1938	10
Quebec	April 1, 1924	2
	April 1, 1925	3
	April 1, 1928	5
	December 17, 1931	6
	April 17, 1939	8
Ontario	May 11, 1925	3
	March 27, 1929	5
	March 25, 1932	6
	April 1, 1939	8
Manitoba	April 27, 1923	1
	March 5, 1925	3
	April 14, 1930	5
	May 7, 1932	7 (refund 5¢)
Saskatchewan	May 1, 1928	3
	April 1, 1930	5
	May 1, 1932	6 (refund 5¢)(#)
	April 1, 1935	7 (refund 7¢)
Alberta	April 30, 1922	2
	June 1, 1929	5 (refund 4¢)
	April 1, 1933	6 (refund 5¢)
	April 1, 1935	7 (refund 6¢)
British Columbia	December 21, 1923	3
	March 25, 1930	5 (refund 5¢)
	April 18, 1932	7 (refund 6¢)

(x) When gasoline is used by farm tractors, fishing boats and for other stipulated uses, the total tax paid is refunded except in the Western Provinces where only a portion is refunded as noted.

(#) Effective January 1, 1933.

WITNESS: We also wish to submit another graph, four or five copies, which shows the gasoline prices decline while the taxes rise; the average annual price of standard gasoline in twelve representative cities in Canada. It first shows the service station price plus taxes; the second the price without taxes.

MR. HARVIE: We might mark it first and then we will have it in front of us.

(GRAPH PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "454").

WITNESS: And the bottom line shows the average Provincial Gas Tax increase throughout the years; in other words since 1927 the taxes have increased in proportion to the decrease in the price of gasoline made by the industry in those various cities. We refer to that as an indirect tax, which indirect tax is that portion of taxes which increases the price to the consumer and retards increased consumption which otherwise would have resulted due to the economies that have been passed on to the consumer in reduced prices.

Q MR. FRAWLEY: I sincerely hope you are wrong about it being an indirect tax, Mr. Miller?

A Well I think you know what I mean, Mr. Frawley.

Q I think for your purposes----

A It is true we collect that tax for the Government but nevertheless the consumer pays that tax and so far as our industry is concerned we consider the tax as indirect.

A. H. Miller

Q MR. HARVIE: Any further comments to make on these graphs?
A No.
Q Would you just refer to the graph........?
Q THE CHAIRMAN: I want to be sure I understand, Mr. Harvie. Take Number 454, Service Station Price Tax. Explain to me..........?
A That is service station price plus tax.
Q Yes, plus tax?
A That is the service station price plus the tax.
Q Yes?
A And this is the price without the tax.
Q Oh yes?
A It shows the relationship of the price declining but the price to the consumer being maintained by virtue of the tax.
Q The average provincial tax?
A Has gone up steadily to there.
Q Is that for all provinces or in Alberta?
A That is for 12 representative Canadian cities. That takes in Canada. The other one is for the Province of Alberta. That one is Alberta. That shows the tank truck price plus the tax. This shows the tank truck price without tax. In other words, they have maintained their relationship all through. As the tank wagon price on gasoline has gone down, the tax has increased, making the ralationship equal all the way through. In other words, there has been no reduction to the consumer. And this price increased up through...........It started off with 2¢ in 1925. It was 5¢ in 1929, 6¢ in 1934, and 7¢ on April 1st, 1937 in the Province of Alberta.
Q MR. COMMISSIONER LIPSETT: Has there not been a reduction

A. H. Miller

in the price, notwithstanding that, Mr. Miller, from
32¢ in 1926 to 23¢ in 1929?

A Yes. The big decline took place in 1936 with the reduced prices on crude, when Turner Valley came in, and so forth. It gave a steep decline in the tank wagon price.

Q From 1936 to 1939, notwithstanding the tax?

A Yes. There is a difference of 1¢. In other words, the tax was on the increase in 1936 when prices started to reduce in the Province of Alberta, the gasoline tax was 6¢, and on April 1st, 1937, it was raised to 1¢, to 7¢, which now remains.

Q Yes, thank you?

Q THE CHAIRMAN: And this refund on the side of Exhibit "453" is the refund to farmers?

A Yes, at those dates. For petroleum products, taxable petroleum products used in implements for agriculture. They have changed from time to time, Mr. Chairman, according to the various provincial regulations that might have been applied. In other words, sometimes the farmers get back the entire amount of the tax they paid in some areas in Western Canada, and in some provinces they get back part of it, which makes the fluctuation.

Q Do I understand this aright, that the Alberta tax is the same as British Columbia?

A Yes, sir.

Q And the Sadkatchewan and Manitoba and less than all other provinces right now?

A Correct. That is right, sir.

Q As Major Lipsett points out, it is really less than Manitoba

A. H. Miller

because there is less of a refund.

Q MR. COMMISSIONER LIPSETT: You mentioned something about the effect of the 8¢ tax in Ontario, Mr. Miller?

A Yes, sir.

Q In reducing distribution. What has been the effect of the distribution in those three Maritime Provinces with the 10¢ tax that has been in existence for a considerable time in Prince Edward Island?

A The season has not advanced sufficiently to be able to guage just what will happen. The opinion of many is that in the first place it is going to be a detriment to their tourist traffic. In the Province of Nova Scotia and the Province of New Brunswisk the last few years they have spent millions of dollars putting in hard-surface highways to encourage particularly American tourist travel, in addition to inter-provincial travel from Ontario and Quebec, considering that to be one of their main industries in New Brunswick and Nova Scotia. Many opinions are that the increased tax is going to re-act unfavorably, not only by possible lesser consumption by the motorists in their own province, but particularly with the motorists from other provinces or American tourists, who find they have to pay a tax of 10¢ per gallon. As I said yesterday, that tax is equivalent, or not equivalent, but the tank wagon price in some points there is 14½¢ a gallon and 10¢ added to that in tax, making it 24½¢ and making the retail price to the consumer 29¢ and 30¢ a gallon.

Q MR. FRAWLEY: It is that in Calgary, is it not? Ethyl gasoline is about 29½¢?

A At the same time, Mr. Frawley, the Maritime Provinces

A. H. Miller

are like Ontario and Quebec, are more economically operated than the Province of Alberta, and while the prices have been reduced considerably and present tank wagon prices are low, the fact remains that the product to the motorist is just as high as it was several years ago.

Q As I say, I am not making any point of it at all. But you spoke about 29½¢ gasoline in Prince Edward Island with a 10¢ tax, and we have 29½¢ gasoline in Calgary with a 7¢ tax

A I will say it is anywhere from 29½¢ to 31¢. I am not quite sure, but I could look it up if you wish it. That was just an approximate figure.

Q THE CHAIRMAN: At any rate, you say the analogy is not a proper one because of conditions in the West, the marketing costs present a wholly different picture than the more populous centers in the East?

A Yes, sir.

Q All right?

Q MR. HARVIE: There was just one more item, and that was in connection with Volume 1 in the information scheduled Lubricating Oils and Miscellaneous Products Sold. On Page 5 of that Schedule. There were items under summary sales value and marketing expense and net profit. An item of marketing costs of $84,653.93, and administration of $18,712.02 that we were asked to file a break-down. I think that might be done.

MR. COMMISSIONER LIPSETT: I am sorry, I have not got your reference.

MR. HARVIE: In Volume 1.

MR. COMMISSIONER LIPSETT: Yes.

MR. HARVIE: It is really just the first

schedule after the written brief. There are five pages that are folded together.

MR. COMMISSIONER LIPSETT: That is the one headed Schedule of Lubricating Oils?

MR. HARVIE: Yes, on Page 5 of that.

THE CHAIRMAN: You are making this an Exhibit?

MR. HARVIE: Yes, I think we should, Mr. Chairman.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "455")

MR. HARVIE: That statement, I think, is self-explanatory.

MR. FRAWLEY: When was this requested?

MR. HARVIE: At the time we were filing Volume 1, and referring to these figures here.

MR. FRAWLEY: Is this what Mr. Cottle asked for?

MR. HARVIE: Yes.

MR. FRAWLEY: I will show it to him. He is ill, but he may be here this afternoon.

MR. HARVIE: That is everyting, I think, we have been asked to supply, Mr. Chairman, up to date. Now, Mr. Miller, if you will proceed where we left off?

A I will now go back to Page 10, Marketing Costs, in Volume 2, and I would like to refer you to Graph 10-A, which is submitted. That is a similar picture to the one we discussed in the Province of Alberta, known as Graph Number 10, except it covers the three Prairie Provinces in which we operate, Manitoba, Saskatchewan and Alberta. I felt that in view of

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and to further support the peculiar operation that we have in the West, in the wide fluctuations, that you might be interested in that combined three Prairie Provinces picture. First starting off again at 100.

Q May I just make sure, Mr. Miller, that the same remarks apply to this graph as to Graph 10, as to whether it is B. A. figures or others?

A I will come to that. Starting off at 100 in 1928, we start with consumption of taxable products, which is Prairie Provinces. In other words, the three provinces. Consumption of taxable products refunded is also Prairie Provinces. Car registrations are Prairie Provinces. Amount of marketing expense is British American. Amount of marketing expense less bad debts and drum write-offs is British American. The cost pe r gallon in cents is British American. Cost per gallon covering these three provinces between the years 1928 and 1937.

Q And sales of all products tank wagon?

A Sales of all products tank wagon.

Q THE CHAIRMAN: That is B. A. Prairie Provinces?

A The consumption of taxable products is prairies. Consumption of taxable products refunded is prairies. Car registration is prairies. Marketing expense is British American.

Q Yes?

A Amount of marketing expense less bad debts and drum write-offs is British American. Sales of all products tank wagon is British American. Cost per gallon is British American's cost per gallon 1928 to 1937 covering the three Prairie Provinces as shown on the graph.

Q MR. FRAWLEY; What puts that cost up so high, Saskatchewan?

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It is away up over Alberta's marketing cost?

A Yes. It is mainly Saskatchewan, Mr. Frawley, where, the last five years, as you know, conditions have been very, very adverse. A drought area of large size, 300 by 250 miles, and as a matter of fact, that extended away north particularly during the years 1932, 1933 and 1934.

Q Would you mind giving us the same figures you gave us on the Alberta Table Number 10 starting at 5.36 and ending at 4.41¢. Have you got the same figures for 10-A for that marketing cost?

A I can give you those, Mr. Frawley. But in dealing with Volume 3 under marketing costs it will show that picture and at that time we can mark them right on that graph. I would like to say, too, that as far as Saskatchewan is concerned, when we spoke yesterday of us having to look at the over-all picture, I pointed out that the prices are not increased in any area to take care of areas where conditions are bad. But I would say this, if we had been operating as an individual company in the southern half of Saskatchewan with our refinery at Moose Jaw over the last five years, I think we would have just been about ready to go out of business. In other words, conditions have been such that they have been bad, but nevertheless, we have had to stay in there. We could not pull out any more than we could out of any other area.

Q MR. COMMISSIONER LIPSETT: In Moose Jaw, you are using Turner Valley crude altogether, Mr. Miller?

A Yes, sir, we are using Turner Valley crude for all the Prairie Provinces.

Q MR. FRAWLEY: You are not using much in Manitoba, we are told?

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A There is no business, Mr. Frawley - when I say all three western provinces - our business east of Winnipeg running to the Ontario boundary does not amount to a row of beans. There is not any business down there, until you get down to Ft. William and Pt. Arthur. So as I say, we ship our requirements into Manitoba from our Moose Jaw refinery, which products are refined from Turner Valley crude.

Q Up to what? We had some evidence to the contrary, and I just want to be sure about that. Are you not sending your Ontario-made gasoline back into the Winnipeg market this year?

A Very little, Mr. Frawley, into Winnipeg city. Not coming west to Winnipeg now. We changed those assignments. We ship from the west.

Q That is very interesting. We have not any information on that. At some time you might elaborate slightly on that so as to put us right on it. East Texas crude has not invaded the Western Canada market very appreciably as far as your company is concerned?

MR. HARVIE: It is not to put you right. It is to put you up to date.

MR. FRAWLEY; I am not complaining. I just stumbled on it and I want to make it clear.

A Well, Mr. Frawley, maybe I had better answer it this way. One time the City of Winnipeg was not a suitable point for refining purposes, but today it might be in view of the Illinois and East Texas situation. But having no refinery there, we ship from our Moose Jaw refinery into Manitoba. There are some products going into Winnipeg from our terminal at Ft. William, but very little.

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Q You mean some special products?

A There may be some White gasoline and some Diesel fuel.

Q And that is only because of something peculiar, that is not because.........?

A Well, as a matter of fact, I can say right now it is just a matter of changing our assignments to suit our general operations in the best manner we can. We have been troubled, as you know. You know our picture in Alberta during the past year. We were operating in the Province of Alberta as I said the other day with our Coutts refinery and with Montana crude. That picture had to be changed, and we had to construct a new refinery here.

Q This is perhaps a digression and I won't delay you any longer. You say as distinguished from the Imperial Oil which finds it necessary to send Sarnia-made gasoline as far west as Portage la Prairie, that the Regina refinery cannot supply, or cannot resist the pressure of Illinois crude to the extent of sending it any further east than Portage la Prairie, with Turner Valley-made gasoline, the British American on the contrary from a greater distance, or namely, Moose Jaw, has held the Winnipeg market, which is really all of Manitoba worth speaking of, held that market for Turner Valley crude?

A Practically all the Manitoba market, we are now, yes.

Q All right?

A One of our reasons for shipping it down there last year was because we were dragging on bottom in Montreal, where we had to increase our capacity 34% and not being able to supply sufficient material to the City of Winnipeg, or our terminal at Ft. William, to supply the City of Winnipeg,

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we shipped back from Moose Jaw somewhat. These are contingencies you have to contend with in this business from time to time.

Q It is of more than casual importance to the Commission, because one of the things the Commission has been asked to do is to recommend a field price for Turner Valley crude, and that involves the distance which the crude will go, and so on. So I really think it is very interesting what you are now telling us?

MR. COMMISSIONER LIPSETT: It is very important for the crude oil industry in Turner Valley, is it not?

MR. FRAWLEY: Yes, I would say so.

A I suppose the more we can use out of there the happier they will be up here.

Q MR. COMMISSIONER LIPSETT: Have you found discrimination in railway rates for products going east from Moose Jaw as compared with products coming west, as far as mileage is concerned, Mr. Miller?

A As I said the other day, I cannot answer your point. I think one of the most difficult things we have had to contend with out here in trying to make our products comparable to other areas is the fact that the rates have always been too high. For instance, we pay from Ft. William to Winnipeg a rate of 4¢ per gallon, I think it is. 4.8¢ per gallon from Ft. William to Winnipeg over night in our own tank car, a 12-hour run, on refined products. That is a pretty high rate.

Q MR. FRAWLEY: Yes, but it is not as high as you have to pay from Moose Jaw to Winnipeg?

A I would have to check that. I have not got it on my finger-tips

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Q We have been all through that, and as Major Lipsett points out to you, this inequality, this difference.....

A I talked about the freight rates in the west being more than they are in the east, which naturally adds to the cost of the product to the consumer.

Q Yes? But we have had it established here in evidence that the rate from Ft. William to Winnipeg for a greater mileage is less than the rate from Regina to Winnipeg for a less mileage. That is all. That is definite. And that matter is before the Board of Transport Commissioners today. Are you now telling us, notwithstanding that greater rate, which is a fact, that you are able to keep the Manitoba market for Turner Valley gasoline from your Moose Jaw refinery. That to me is interesting?

A We have to do these things once in a while. We have to change our assignments to suit various contingencies that we have to take care of. I did not say it was permanent, but I say we do that.

MR. HARVIE: I would suggest possibly, Mr. Miller, that this is really a refining problem, and you might just refresh your mind over the noon-hour and give any information Mr. Frawley wants on it.

MR. FRAWLEY: I am interested in the fact that gasoline is going in there. However.

THE CHAIRMAN: I am more interested in whether it is going in there on an economically sound basis, or whether it is just going in to meet a temporary situation in your company's operation?

A Well, that is what it has been, Mr. Chairman, of a temporary nature until we get our picture straightened out. Naturally,

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we are desirous of supplying Manitoba, if we can, from our refineries in the west from Alberta crude. We would rather use Canadian crude than to import crude from the United States, which we have to do in the east.

MR. HARVIE: We will be able to supply a separate statement showing where the economic line is now as compared with the evidence before the Commission at the moment, if there is any change, and also what the facts are in regard to shipping.

THE CHAIRMAN: We would be very glad to have that, Mr. Harvie. I think what you may be doing today may be of no importance.

MR. HARVIE: I think that is possibly the case.

THE COURT: What you deem to be an economically sound thing to do is quite another thing. I think it would be of great importance to have the views of your company's representatives on that.

(Go to Page 10,652)

Q MAJOR LIPSETT: And possibly following up what the Chairman has said, any suggestion that would make it to continue to be economical possibly to use Turner Valley crude or any suggestion --

MR. HARVIE: Yes, we will be glad to give as complete a statement as we can on the whole matter.

THE CHAIRMAN: We have said to Mr. Halverson, who was here for the Imperial Oil and we think it well to say to you now, that we would welcome any suggestions, whether elicited by questioning or not is of no importance, which you would think would make for the good of the industry in this province. You are in the industry and things will occur to you that probably will not occur to any Counsel or member of the Commission and that might advantage the industry as a whole, whether from the standpoint of the producer or the refiner or the seller or the consumer and in the hope that we may make recommendations which will advantage all or some of these people, we will welcome suggestions, whether they are, as I say, elicited by questioning or not; there may be many things which occur to your principals as being possible of accomplishment, which would be beneficial if put into effect and we certainly are all ears to hear such suggestions.

MR. HARVIE: We appreciate that, I think Mr. Chairman, and we are trying to submit our evidence as completely as possible and we have that in mind but this is a digression and we are not prepared at the moment but we will see that it is answered fully later.

THE CHAIRMAN: It arose for example, a suggestion arose in the case of the Imperial and I think

also in the case of Mr. Plotkins' refinery, over a discussion of regulations and statutory enactments and the like that are considered to be, by Mr. Plotkins at least, in some respects inimicable to the interests of the industry; things like that may not be dealt with by questioning and yet we would welcome any suggestions and we assume that the government would be happy to pass legislation that would advance the industry, or happy to withdraw legislation or regulations which are retarding it, equally there may be matters of internal management, matters where the industry might "clean house" if helped by the Government. All those things we would be happy to deal with if we had the information upon which to determine and found our recommendations. We leave that generally with you.

MR. HARVIE: We will be very glad to do what we can.

Q MR. HARVIE: Have you completed 10 (a), Mr. Miller?

A Yes. The next is 10 (b), comparisons showing the yearly sales of taxable products in the Province of Alberta; first in the legend, in black lines, is the Alberta total; green is the British American Company's percentage of that total and the red is the miscellaneous companies. The base there was in terms of 100, 43,548,000 gallons in 1931. In 1932 the total taxable in the province was 41,300,000; 1933 it was 40,324,000; 1934 45,194,000; 1935 47,443,000; 1936 54,388,000; 1937 65,736,000. Our percentage of the total taxable sales in 1931 was 16.14%; 1932 15.93%; 1933 16.33%; 1934 17.19%; 1935 17.99%; 1936 17.99%; 1937 18.77%.

On the other side we show the difference of the miscellaneous companies and when I refer to "miscellaneous companies" I refer to all companies other than the major company.

Q MR. FRAWLEY: What is the significance there of the expression "excluding Royalite"?

A Well, excluding Royalite --

Q Yes?

A Because Royalite have only sold their products in the Valley and it is the Turner Valley naphtha and I did not want to confuse that with the general line of products which are sold.

Q It does not exclude Imperial?

A No, sir , just the Royalite Turner Valley sales.

Q But the miscellaneous companies, that classification does exclude Imperial, Texas?

A That excludes Imperial, Texas.

Q North Star?

A North Star.

Q The Canadian, the Great West?

A No.

Q It might be, it would be more helpful to the Commission, I think, if that was explained a little more, so that we will know what you have regarded as "miscellaneous companies".

A Well, it would include all marketers with the exception of the Imperial Oil Company, the B. A., the Canadian, the North Star, the Texas.

Q The Union?

A The Union, I think that is all. All other marketers are

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classified in there as miscellaneous companies.

Q Can you put in the 1938 figures some time, Mr. Miller?

A I beg pardon.

Q Can you supplement that with the 1938 figures?

A Oh, we can, yes. All other companies there, as I say, all companies except those mentioned can be included as "miscellaneous companies" which means anybody that is buying or selling petroleum products in the province of Alberta, like the Lion, or any company that brings it back here and sells it is included in that heading "miscellaneous companies".

In 1931 the percentage of those companies was 12.70%; in 1932 it was 17.85%; 1933 it was 25.70%; 1934 it was 23.32%; 1935 it was 23.87%; 1936 27.24%; 1937 27.77%.

Q MR. FRAWLEY: Your percentage is what you call your direct gallonage?

A Yes.

Q Not what you sell to your main jobbers, the Bell and the Great West?

A No. We have just about held our own, where the other people have increased very very rapidly. I thought that might be interesting to the Commission to see the trend of that, of the two operations.

Q MAJOR LIPSETT: That leaves about 54% that you have not dealt with in this Chart at all, you have dealt with 18% --

A Just our percentage, sir, of the total. It does not include the percentage of the other major operators but that figure representing the miscellaneous companies is correct and covers all companies selling products except

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these six or seven that I have mentioned.

Q MR. HARVIE: In other words, the remaining 54% will be the sales of those companies which you have excluded, except the Royalite which is ignored entirely?

A Yes.

Some of that has no doubt become due to the improved highway conditions which I spoke of the other day; newcomers have been able to install and operate on a different basis than the old form of distribution that we used to have to operate with before these good roads became operative; that I think has increased that miscellaneous business to a great extent. We have had some of the conditions to contend with in other areas of the West, the Province of Saskatchewan, as the roads improved we saw various skimming plants and what is termed as highway refineries, just skimming the crude and selling the foreign products, increase to such an extent where we have now in the neighborhood of 12 to 14 of those plants and by virtue of their operation and the refining of their products, selling F.O.B. the plants, without any regard for price and possibly have not got to take care of the contingencies that we have to take care of in the industry, it gives them a lower price and consequently has increased that percentage of miscellaneous operators and decreased the percentage of the major operators and consequently that adds to an increased cost per gallon.

Q MAJOR LIPSETT: You yourself have gone up from 100 to 169 in 1937?

A That is right, sir.

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Q And the miscellaneous companies have gone up from 100 to 202?

A From 1931 to 1936, yes. I now go to page 11 on Distribution.

Retail Facilities:- Retail facilities in the Prairie Provinces are mainly owned and controlled by individual dealers who seek a livelihood by retailing Gasolene, Lubricating Oils, and other petroleum products. In the Province of Alberta there are approximately 2,225 retail outlets, out of which 205 only are owned by the oil industry, or 10%.

To eliminate any thought that prices are loaded by excessive investment in retail facilities, were we to take out of our entire marketing investment in the Province of Alberta, our investment in retail outlets, it would not account for any appreciable saving in our cost of operation as shown, or afford a reduction in tank wagon prices.

In that regard I would refer you to statement 15 and that statement shows the effect of marketing expenses under two headings, first, eliminating charges in respect of service stations and second, reducing wholesale outlets by 25%, which I will deal with later. However, the saving effected in service station expenses would be costs less revenues, $14,483.06; the depreciation costs of $18,785.99, making a total of $33,269.05.

I will now go back to Page 11.

Bulk Plants: - It is claimed that the multiplicity of bulk plants is uneconomical and unnecessary, and consequently increases the cost of the product

unnecessarily.

That is questionable, in view of the local conditions in the West, which we have mentioned previously, and the peculiarity of the requirements of the business, including the fact that half the sales are made in a four-month period from July to October, which makes it absolutely essential that not only should the distribution be wide to give equal facilities to all, but capacity must be sufficient to take care of the period of peak business.

During the rush season of the year many companies run out of stock, and even though there may be three or four companies in one town, there have been times when inventories were depleted and consequently additional cost to the consumer was entailed in harvesting. Even with existing distribution, this invariably happens.

And I think it is liable to happen this year if the crop comes off as expected.

Q MAJOR LIPSETT: What exactly is that, Mr. Miller?

A Well the main difference has been, Mr. Commissioner, in many areas the freight. There is the freight schedules, which are disrupted, or they are not frequent enough to take care of that peak period unless there is sufficient storage in the field to carry over from one day to the next when the freight may arrive. There are many of our points out here in the Prairie Provinces where the freight might be bi-weekly or once a week and if the weather is generally fine over a large area the farmer has to have those requirements immediately and the deliveries are

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greater than we can replace on many occasions. As I said the other day we either have to have storage in the field or storage at the refinery and whilst it might be less costly to have large storage tanks at the refinery when you place them on a barrel cost as against having tanks in the field, nevertheless you have to increase your tank car requirements which cost three to four times more than your storage tanks and you would have those tank cars, as you have the freight cars today, the grain cars, standing idle over a long period each year. As I see the picture, you have got to have the goods in the field to take care of that peak season in these agricultural areas.

Q And that is chiefly through, on account of the train service, as you say bi-weekly or weekly and you have not the storage at the particular point to carry you over until the next train arrives?

A That is right, sir. That is one reason, one thing we took into consideration in this new form of distribution. We determined that we could put the additional storage at these main bulk company operated distributing points and with sufficient underground tanks in the Fall our trucks would keep these supplied. Furthermore, in place of having less distribution it necessitates carrying a greater stock at the various points, by having twice or three times the distribution. That maximum or that peak there that we would carry ordinarily at the one point to supply the greater area, is broken down three or four times in the same area. In other words, instead of

carrying, we will say, 30,000 gallons worth of material at one point and supplying an area of possibly 25 miles, we now will have maybe that 30,000 gallons broken down over six points within the 25 mile area, making it more accessible to the farmer and making it easier for us to keep it full from the main bulk plant.

Q MAJOR LIPSETT: Do you anticipate that that may take care of the peak demand in the present season?

A Yes.

Q You say here with the existing distribution this invariably happens but that may be --

A That is for the old distribution.

Q Yes, and you think that may be taken care of by your new system?

A It is going to help out very tremendously, sir.

It is a fact farmers will not make provision for any requirements until the crop is assured or they are ready to work on the land. This taxes every industry facility and service, including the railways, to the utmost, with the result facilities and services rapidly become overloaded and congested with consequent delay.

As soon as the crop is ripe the farmer has only one objective in mind, and that is to harvest, thresh, and store during favorable weather. Delay is generally responsible for considerable loss to the individual farmer and a general loss to the country as a whole. Unfavorable weather will not only add considerable to the cost of threshing, but will degrade the grain, creating a loss of anywhere from 3¢

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to 10¢ per bushel. Wide distribution and proper services are responsible for keeping these losses at a minimum, benefitting the individual and the country as a whole.

To illustrate what this means to the community, the wheat production for the Province of Alberta from 1933 to 1937, inclusive, totalled 453,482,000 bushels, or a yearly average of 90,696,400 bushels.

If the farmer were delayed at harvest and bad weather ensued, as has frequently happened in the past, assuming 20% of the average yearly crop threshed tough, the cost each year to the Province of Alberta would be $544,178.00, and if at the same time, 10% of the crop threshed damp, the additional yearly loss would be $816,267.00, making a combined yearly loss of $1,360,445.00.

We maintain that this loss is within reasonable possibility without proper facilities, capacity, and wide distribution, and when based on the average yearly gasolene consumption in Alberta for the same five-year period of 50,617,000 gallons, could easily account for an added cost to the farmer of 2.69¢ per gallon.

And I would like to refer you to Statement No. 12 and Graph 12 and 13.

Statement No. 12 is composed of 14 sheets, none of which are numbered separately. These sheets provide a survey of grain

crops in each of the three Western Provinces separately and the three Western Provinces collectively, covering the 11-year period, 1928 to 1938, inclusive, giving for each year the production in bushels, the value in dollars and the average price per bushel. The authority for these statements is the Dominion Bureau of Statistics.

The other sheets deal with the annual wheat yield on the basis of information given by the Dominion Bureau of Statistics and provide a ready reference table for figuring the possible loss in each year in the event a certain percentage of the annual wheat crop were affected by weather conditions, resulting in delay in threshing and consequent deterioration through wet weather.

The dockages shown in cents per bushel are as set by the grain trade for Western Canada. All sheets in statement No. 12 are self-explanatory.

However, I would just like to touch on the first one there, the Alberta wheat production, 5 year average, 1933, 1934, 1935, 1936 and 1937. This Table is based on the annual wheat yield and gasolene consumption showing the possible loss in the event of degradation due to delay in threshing and second, deterioration through wet weather. The dockages would be tough, 3¢ per bushel, damp 9¢ and heated 13¢. The percentage of annual wheat crop affected is shown there. We show it as 10%, 20%, 30%, 40% and 50%. We then give you the yield of crop by bushels for 1933, 1934, 1935, 1936 and 1937.

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gasolene consumption is also listed for the same period, the five year total is 453,482,000 bushels. The gasolene consumption for the five years is 253,085,000 gallons, making a five year average of 90,696,400 bushels, with the average five-year gasolene consumption of 50,617,000 gallons, so we take 10%, which would give us 9,069,640
of that was tough it would
bushels and if that 10%, if 10% was cut it would amount amount to $272,890.20, which we feel converted to gallons would be .5375 cents per gallon; if it was damp, as I said before, there would be $816,167.60 and converted per gallon it would amount to 1.6126 cents per gallon. If 10% were heated it would amount to $1,179,053.20 and converted would be 2.3294 cents per gallon.

Q MR. FRAWLEY: What does that mean, Mr. Miller, I am afraid I do not understand that?

A I am trying to illustrate, Mr. Frawley, that, by these figures, and I think anybody who has lived in the West any sufficient time realizes and knows not only too well what delay actually costs the farmer in his production when it comes to the harvest season. I do not care what delay it is, whether it is because he cannot get petroleum products or whether he has got his machine broken down or some other reason that he cannot get going and if he runs into bad weather he suffers dockage on the grain, after this fashion, which I tried to set out or picture, which I think, looking at it from the standpoint of western economics is worth while to consider, to justify the existing or additional for that matter, distribution of petroleum products in this province to give adequate

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service because I think that petroleum products are so closely allied with that particular industry that they are as important to the farmer as any other requirement that he may want.

(Go to Page 10,665)

Q What I do not understand is these per gallon figures. I do not just understand that 2.32?

A To go back there, Mr. Frawley, as I say the five year average is 90,696,400 bushels of wheat. The gas consumption for the five year average is 50,617,000 gallons.

Q Yes?

A At the top there we set a table showing what the loss would be under 10% heading, 20% heading, 30% heading and so forth, up to 50%. So 10% of that 90,696,400 bushels of wheat, if that 10% was tough it would mean 9,069,640 bushels. Based on a 10% figure it would amount to 27,208,920.

Q MR. HARVIE: That would be on a basis of 3 cents dockage for being tough?

A That is quite right.

Q MR. FRAWLEY: That is what it would cost the farmer?

A Yes.

Q $272,000.00?

A Yes.

Q Yes?

A Now, based on the average gasoline consumption, in other words, if he was delayed by not being able to secure gasoline, that loss could be shown as .5375 cents.

Q MR. COMMISSIONER LIPSETT: That is to say, Mr. Miller-----

A Not loss, but additional price to him.

Q It would pay the farmer to pay half a cent a gallon more for these extra distribution facilities that you have if he could eliminate that loss?

A Yes, Sir. Then the next point, you see, is damp, and the next is heated.

Q MR. FRAWLEY: Yes, I see that now.

A On the next page there we give you the Prairie Provinces, Manitoba, Saskatchewan and Alberta. Wheat production, five year average, 1933 to 1937 inclusive, and we show the same figure, or we set it up the same way, rather. We show the five year average of the wheat yield and the five year average gasoline consumption. You will notice that would work out just about the same for the Prairie Provinces as was shown for the Province of Alberta, on the 10% basis or 20% basis, as the case may be. That is wheat production. The next page there we give you the same breakdown figure based on 1936 and 1937 for the three Provinces. The next page we give you a picture for the Alberta wheat production 1928 to 1938. We set that up the same way, showing the possible loss from the year 1928 to the year 1938, for each year.

Q MR. COMMISSIONER LIPSETT: Were these dockages for tough and damp and heated, did they continue the same during all this period?

A Yes, Sir, they have been fairly constant. They are set by the Grain Board. The next page there we give you a survey of grain crops in Manitoba, Saskatchewan and Alberta from 1928 to 1938. These are really exhibited to draw your particular attention to the wide variation in the yields and the prices. We show the production in bushels for the 10 year period. We show the actual value that the crop amounted to for each year for the 10 years. We show the actual price per bushel, which shows a wide variation over the 10 year period. We think that is interesting and essential because it has, as I said before, a great bearing

on the operation of not only our industry but all other industries in the West. We give you a survey of the grain crops in Alberta from 1928 to 1938. The production in bushels for that 10 year period. The average price per bushel in cents for the same period and the value of the grain crops in dollars each year. That covers all grain crops in Alberta.

Q MR. HARVIE: That is Spring wheat, oats, barley, rye, flax, feed and all-----

A All field crops. We show there a survey of the grain crops for the years 1928 to 1938 and they are interesting because they fluctuate very, very widely. We give you the same information covering the Province of Manitoba. I would now like to refer you back to the Graph No. 12. On that graph, so as to crystallize the picture for you, we show the Alberta grain crops 1928 to 1938 inclusive. Legend. We show all grain products (a) black, bushels, (b) which is red, value, (c) which is green, average price. Below that we show wheat, (a) black barred line, bushels; (b) red barred line, value, and (c) average price, in a green barred line. Total bushels of field crops, with total value and the average price per bushel. Also the total bushels of wheat with the total value and the average price per bushel. Production and values are shown as follows: In the year 1938 there were 277,847,000 bushels of all grains in the Province of Alberta, based at 100.

Q MR. COMMISSIONER LIPSETT: 1928?

A Yes, Sir, 1928. I beg pardon. In 1929 that went off to 54%. In 1930 it went up again to 89%. In 1931 it went up to 91%, in 1932 it was 105%; 1933, 68%; 1934, 76%; 1935, 72%;

1936, 48%; 1937, 63%, and 1938 we are back to 99% or normal. If you look at the average price as shown there for the years 1928 to 1933 you will notice what a wide fluctuation there is in connection with those prices. 1928, starting off at 100, in 1929, 132%; in 1930, 53%; 1931, 45%; 1932, 49%; 1933, 53%; 1934, 71%; 1935, 63%; 1936, 108%; 1937, 103%, and 1938, 60%.

We go over to the wheat and it gives you the production in bushels each year and the fluctuation over the 10 year period. It gives you the value in dollars received for the crops, which fluctuated very widely, and the average price in dollars as shown for the 10 year period. In other words, 75¢ for 1928; $1.02 for 1929; 45¢ in 1930; 36¢ in 1931; 32¢ in 1932; 45¢ in 1933; 58¢ in 1934; 61¢ in 1935; 92¢ in 1936; 98¢ in 1937 and 57¢ in 1938; The graph shows the fluctuations, I think, quite clearly there. We thought that the prices of grains and the variable yields each year are worth some consideration when it came to considering the marketing costs of an operation such as ours.

THE CHAIRMAN: And the source of your information is the Dominion Bureau of Statistics?

A Yes.

Q MR. HARVIE: It is on such information as this that you do your budgetting and estimating for the future?

A Quite right.

Q MR. COMMISSIONER LIPSETT: What is the average price of wheat here based on?

A That is the actual price shown there each year.

Q Is that No. 1 Fort William?

T-2
5 A. H. Miller.

A You mean the grade of wheat?

Q Yes?

A Yes, Sir.

Q At Fort William?

A That is the average price.

Q THE CHAIRMAN: Obtained for wheat of all grades?

A Wheat of all grades, yes, Sir.

Q MR. COMMISSIONER LIPSETT: At Fort William?

A Yes, Sir. Graph 13, there is a similarity there. The only thing is it takes in the Prairie Provinces and as we operate right across the Prairies these conditions, I think, are interesting to this industry. The same wide variations exist both in yield and prices. If we go back to page 13 I would like to outline a little further as far as the analogy is concerned.

A N A L O G Y

The necessity for taking care of the farmers needs fully and immediately when required is one of the main reasons why we have the large number of grain elevators in Western Canada, which service is considered necessary and absolutely essential, irrespective of some opinion to the contrary.

The total number of grain elevators in the West is:-

Manitoba	-	701
Saskatchewan	-	3,221
Alberta	-	1,756
Total	-	5,678

In addition to 33 private terminal elevators and 4 public terminal elevators, to handle a wheat yield which varies from a low of 159,000,000 bushels to a high of 544,000,000 bushels over the past ten years, with many of these elevators standing empty or idle a large portion of each year.

Without these grain facilities and the wide distribution

afforded by the petroleum industry, Alberta and Western Canada might be in the same position as the Argentine which suffers losses running into the millions of dollars by not having proper terminal storage, grain handling and other facilities, causing dumping on the World Market in order to eliminate harvesting and handling losses.

In that connection I would refer you to Statement 14 in the book.

Statement No. 14 is composed of 3 sheets, and covers the Argentine wheat production 1928 - 1938 inclusive, as furnished by the Dominion Bureau of Statistics, and a resume of marketing of the wheat crop in the Argentine as provided by Mr. Strang, the Canadian Agricultural Representative at Buenos Aires. The Statement is self-explanatory. The first page gives you the millions of acres sown from 1928 to 1938. The second column, the Yield per Sown Acre over the same period, and the third column the actual production in millions of bushels.

MR. HARVIE: Do you wish to read that into the record or just file it?

A Whichever the Chairman would like.

Q I take it that the purport of filing that is to show, as you have stated in the brief, the results of incomplete services being supplied in marketing wheat, such as a comparison between the services in the Argentine as against Western Canada.

A Quite right.

THE CHAIRMAN: That is already in as part of the Exhibit, so I think it need not be read. It merely emphasizes the point you are making of the effect of the lack of proper handling facilities?

A Proper facilities. I think the comparison is good. In other words, if there were no proper grain handling facilities the farmer in the Province and country as a whole would lose and the same applies to the petroleum facilities of handling and distribution. If he is delayed his loss is not only a personal loss but it is one of the Province and the Dominion as a whole.

Q The suggestion made against that view, as I understand it, is not that the farmer is served by too many points but he is served by too many people at those points?

A Well, I am going to, a little later, Mr. Chairman, I made up a picture here of actual figures, which can be substantiated, which I think will prove our point, and that is that taking 21 representative points in the Province of Alberta where we would have an exclusive franchise and enjoy 100% of the business at any one of those 21 points, which I think are representative of all points in the Province of Alberta, our cost per gallon of doing business would be greater than under the present basis, that is the present competitive system where four or five companies operate. Which I was going to come to later.

Q Very good.

Q MR. COMMISSIONER LIPSETT: I just noticed in that Argentine picture that you gave that apparently there is a storage capacity on the railways for 220,000,000 bushels as compared with your average for the last five years of 220,000,000 bushels?

A Yes, Sir.

Q There does not seem to be a definite shortage of storage capacity there?

A No, but it is the difference in the system of handling that grain to what we have in Western Canada, as I understand it in that report.

Q There it seems to be all stored by the railways instead of being stored in these various elevators all over the country?

A Yes. Until that reaches the railways it lies on the ground, from the information I secured, and it is covered over with tarpaulins in bags. In other words, it is in bags and it is covered with tarpaulins. It waits there until it is turned over to the railway. I think that report covers it very clearly, and Mr. Strang gives his views in connection with it.

MR. HARVIE: That particular facility, I think, is ample, but there are other facilities required in the handling of the crop which are not ample, which possibly illustrates Mr. Miller's point.

MR. COMMISSIONER LIPSETT: It is just on the point the Chairman was raising that I asked it. There apparently they have one storehouse at the railways instead of five or six elevators. In the same way would it be economical to have one person handling all gasoline at a point instead of five or six different stations or people handling it?

MR. HARVIE: I think maybe the difference is, Mr. Commissioner, as I understand the picture in the Argentine respecting the wheat, that with the one facility of storage there is ample, if you take it at the railway, but there is lack of facilities bringing it into the railway storage and the loss is suffered there. Now, the situation of the industry, the oil industry in Alberta, as suggested, is that we have ample facilities or should

have ample facilities all along the line. If one link is missing the whole structure is thrown out.

COPY

ARGENTINE WHEAT PRODUCTION
and
MARKETING

1928 - 1938

YEAR	Sown Area (Million Acres)	Yield per Sown Acre	PRODUCTION (Million Bus.)
1928	22.8	15.3	349.1
1929	20.5	7.9	162.6
1930	21.3	10.9	232.3
1931	17.3	12.7	219.7
1932	19.8	12.2	240.9
1933	19.7	14.6	286.1
1934	18.8	12.8	240.7
1935	14.2	10.0	141.5
1936	17.5	14.2	249.2
1937	18.9	9.6	184.8
1938	20.8	15.2	316.0

Average yearly Production over eleven years 240.2 million bushels,

Average yearly Production over five years, 1933-37 inclusive, 220.4 million bushels.

Agricultural Branch,
Dominion Bureau of Statistics,

Ottawa.

January 20, 1939.

NOTE: While the average yearly production of Argentine Wheat is 220.4 million bushels during 1933-37 inclusive, over a similar period average total wheat production in Western Canada was 122.9 million bushels or approximately one-half the Argentine Production, and in Alberta over the same period 50.6 million bushels.

Wheat in Argentina is handled in bags of 60 or 65 kilograms (132-143 pounds.) Most of the hauling from stubble fields to railway stations is in horse-drawn carts owned by "carreros", who do this type of work on a piece-rate basis. At the railway station, the bags are raised upright at the rear end of the cart, lowered to the shoulders of warehouse hands to be weighed, and then carried either to storage space in the warehouse or directly into railway cars.

"Receiving wheat" at the country stations involves the process of supervising the weighing, extracting a composite sample for determining test weight, and accepting delivery. Handling of the wheat of warehouse laborers is well organized at each railway station. The charge for handling the grain from cart to scales and from scales to railway cars or storage sheds is 6 centavos per bag, equivalent to about eight-tenths of a cent per bushel. Most of the grain moves in open railway cars under tarpaulin covers to privately owned grain elevators in the port cities.

There are only a few country elevators in Argentina and practically no storage of grain on farms, but there are extensive facilities for grain storage in railway station sheds or warehouses. There are few railway stations in the wheat zone without from one to six galvanized iron sheds built by the railways or grain buyers on the railway right of way. The capacity of the present sheds or warehouses owned by the railways is estimated to be 6,600,000 short tons, 220,000,000 bushels, and of the private sheds 1,800,000 tons, 60,000,000 bushels.

This storage space compares with an annual average production of about 20 million short tons of all grains and

flaxseed in Argentina. Farmers have first option on the space in the warehouses owned by the railways, but growers frequently do not use the space available and it is leased to grain dealers. The charge for storage space in the warehouses is 20 centavos per square meter per month (about 5.5 cents per square yard.)

While railway-station storage is recognized as extremely economical, it lacks the facilities of elevators for moving and keeping grain in condition. Apparently there have been few times when farmers have not been able to secure warehouse space for their wheat, although in years of large wheat crops grain buyers have been compelled to build large piles of sacked grain in the open along the railway tracks. The sacks are piled on a platform raised a few inches from the ground and covered with a tarpaulin or canvas.

The port elevator capacity is about 660,000 short tons, or 22,000,000 bushels, and the country elevator capacity 386,000 tons, or 12,850,000 bushels.

On account of the proximity of wheat-producing districts to river and ocean ports, the rail haul on fully one-half of the wheat production does not exceed 100 miles. The freight charge for this distance is approximately 1.20 pesos per 100 kilograms or about 11 cents per bushel. Prior to the present extensive development of rail and truck transportation, large high-wheeled wagons were used in trucking wheat long distances. Some wheat still moves in these wagons, which are capable of hauling as much as 7 tons, but they are disappearing rapidly and the truck movement of wheat to market centers is growing in volume. As a result of the improvement of roads and the greater use of

trucks, a vast portion of the Argentine crop is now within trucking distance of river and ocean ports.

A further consideration is the fact that, in general, the Argentine is a free seller of wheat and that in most years there is not much tendency to pile up stocks or carry over from one year to another. Neither the storage facilities, nor climatic conditions, are such as to favour the handling of a large carry over. In the absence of large carry overs in the past, the loss from deterioration has been small. The National Grain and Elevator Commission is constructing additional elevator facilities in many port cities. There is a feeling that these additional storage facilities for the port cities are necessary, especially if grades are adopted and an attempt is made to establish fixed grades and to loan money to farmers on the basis of warehouse and elevator receipts. Additional elevator facilities, however, are not designed so much to avert current losses in the deterioration of wheat, as to improve grading and marketing practices.

Because of the limited port facilities the Argentine wheat crop is usually exported rapidly as it arrives at the ports. Two international grain companies, Bunge and Dreyfus, handle the bulk of the export sales, and their policy in past years has been to lower export prices sufficiently to keep wheat exports moving in volume during the January-April period. This year while the Government has pegged the domestic price at a level above export prices, and is subsidizing export sales, the Government's unwillingness to take too big a loss is slowing up exports this year.

We therefore claim that the restriction of present facilities for the distribution of petroleum products would cost the

producer much more each year than the small amount of additiona cost involved, if any, in providing adequate facilities for distribution, as at present.
In fact, considering our entire marketing investment in Alberta, and deducting therefrom 25% of our investment in wholesale distributing facilities, would not account for any appreciable saving in our cost of operation as shown, or afford a reduction in tank wagon prices as estimated, particularly so when you consider that in making this reduction in our investment in wholesale distributing facilities, the cost of doing business would be increased immeasurably by inter-station transfers and other L. C. L. charges, as against the lowest transportation rates it is now possible to obtain through our present distribution set-up.

I refer to our new distribution set-up.

To repeat - consider the elimination of 25% of our entire marketing investment in the Province of Alberta and the saving to be effected thereby. In the case of our retail facilities this would amount to $25,494.65 and in the case of wholesale distributing facilities $4000.00, or a total of $29,494.65, which on the basis of the Gallonage handled through these outlets would amount to a saving of two-tenths (2/10) cents per gallon.

In other words, we would not save, or make any more saving by washing up 25% of our bulk distributions and our service station distributions as we would if we eliminated the drum investment in the Province.

Dealing specifically with our present system of distribution the majority of agents in Western Canada generally handle our agencies in connection with other lines of business such as garages, implements, hardware, etc.

which enables them to make general other use of all the facilities required in the operations of our agency, such as office space, heat, light, telephone, trucks, employees, et As an illustration, agents use their trucks for hauling gravel grain, implements and other merchandise, all of which is a considerable factor in reducing cost. They haul out petroleum products to farmers and bring back grain, live-stock, machinery, etc., thus ensuring a full load each way.

Q MR. FRAWLEY: Mr. Miller, could those two paragraphs you have just read be applied to your new dealer distributor?

A Yes, Sir.

Q We can substitute dealer distributor for agent there?

A Yes, Sir. I would like to refer you to Statement 16 and Graph 16. In other words, the information-----

Q MR. COMMISSIONER LIPSETT: Had you finished with statement 15, Mr. Miller? You took us over part of it?

A Yes, Sir. Well, I might go back to that first. On that statement 15 General Plant, Estimated amount, the savings would be $4,000.00, giving a grand total of savings of $37,269.05.

Marketing Expenses in Province of Alberta 1938 $670,395.30
The above items represent 5.79% or an average over products of .0020 per gallon.

NOTES RE GENERAL PLANT

Effect of closing 25% of wholesale outlets in the Province of Alberta would have small effect on marketing expenses:

(1) Depreciation would not be a face value economy. Additional storage facilities would be necessary at remaining points.

(2) Remuneration in Alberta is practically entirely on a commission basis. This rate varies with the distance from the agent's town. The increase in gallons sold at longer distances would more than offset the savings effected for taxes, maintenance expenses, etc.

(3) For above statement it has been assumed that 50% of the apparent saving in depreciation charges would represent a sum more than adequate to cover all economies possible by closing 25% of wholesale outlets, as additional capital expenditure would be necessary at remaining branches.

Now, I will go back to page 15 and refer to statement 16 and graph 16. I would like to explain that.

THE CHAIRMAN: Well, we will pause there.

(At this stage the Hearing was adjourned until 2:00 P. M.)

....

MR. FRAWLEY: I would like to interrupt Mr. Miller's evidence for about three or four minutes to put Mr. Appleton back to substitute a corrected and a much more complete statement for the one which was put in the other day. I think it was actually marked as an Exhibit.

HENRY JOSEPH APPLETON, having been recalled, examined by Mr. Frawley, said:

Q Mr. Appleton, you are still under oath?

A Yes.

Q You filed a statement the other day called "Statement of Gallons Consumed in Alberta, 1938", and it is marked as Exhibit "331", you recall Mr. Macleod acting for the Texas Company, calling your attention to an item of the gasoline purchased by the Texas Company from Imperial Oil?

A Yes.

Q And you then realized that, to answer this, to show that sort of information you would have to make a more complete statement?

A Yes.

Q And what is the document which I now produce to you?

A This statement is a break-down of Exhibit "179".

Q Exhibit "179", being a statement of gallons sold, prepared by the Department of the Provincial Secretary in 1938?

A Yes.

Q Showing also 1937?

A Yes.

Q And this is a complete break-down now is it of Exhibit "179"?

A Of only 1938. I did not cover 1937.

Q
MR. FRAWLEY: And I would offer this as an Exhibit.

(DOCUMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "456").

Q THE CHAIRMAN: Now that is a break-down of Exhibit "179" for the year 1938?

A Yes.

Q And what is the relation of that Exhibit to Exhibit "331", Mr. Frawley, you were talking about?

MR. FRAWLEY: Yes, now I would like to just give it to you, Mr. Chairman, and discuss it very briefly. It is a much more complete statement. It is virtually an audit of the company's gallonage.

Q MR. FRAWLEY: Now why did we not find in Exhibit "331" the amount of gallons which the Imperial sold to the Texas Company?

A Well that was put in.

Q Why did your Exhibit "331" not show that kind of information , for instance, I mean the gallons purchased by the Texas Company from Imperial?

A I did not have that information here. That was from the Imperial Oil Refinery and not from the Imperial Oil, Limited, and when I realized that I had to go to Edmonton to break this down, because this statement Exhibit "179" was submitted by Edmonton and I have no knowledge of it. It is when we started to make the break-down we found out how it was made up.

Q You made a special trip to Edmonton and examined the original records there and from that you have prepared Exhibit "456"?

A Yes.

THE CHAIRMAN: May we ignore Exhibit "331"?

MR. FRAWLEY: Yes, I really thought of withdrawing it. I thought perhaps we could withdraw it altogether.

THE CHAIRMAN: No, it would break the order of the Exhibits.

MR. FRAWLEY: Then we can just certainly ignore Exhibit "331".

Q MR. FRAWLEY: Now you can answer Mr. Macleod's questions, can you not, Mr. Appleton, the number of gallons purchased by Texas from Imperial in 1938?

A Yes.

Q 350,000?

A 350,024 gallons.

Q Now it is taxed, it is in the Imperial Oil gallonage, taxes, about five or six from the bottom.

THE CHAIRMAN: Yes, and what do you say about it.

MR. FRAWLEY: That Exhibit "331" did not show that, it showed the Texas purchase from the Imperial, in other words, this is complete, under the heading of Imperial Oil, Limited, and controlled gallons it showed that the total sales in Alberta by the Imperial Oil Company----

A By any company.

Q By any company?

A Yes.

Q And whether it was tax exempt or tax collected?

A Yes.

C3
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Q Was 49,778,492.40 gallons?

A Yes.

Q Then the next column and the next one, 2, 3, 4, colums show the amount of gallons on which no tax is collected, sold by this same Imperial Oil Company?

A Yes.

Q To the Dominion Government, 286 thousand odd gallons and the Dominion Government pays no taxes on its purchases?

A It pays no taxes at all.

Q The next product, Varsol, is a cleaning fluid I understand?

A Yes.

Q And 100 thousand odd gallons was sold of that?

A Yes.

MAJOR LIPSETT: Not Taxable.

Q MR. FRAWLEY: No, you see Varsol is not taxable. Then you come down to the third last column, tax collected sales, which is just the difference between the total sales Alberta, and the addition of the four exempt classifications, you show they sold, sales of heavy fuel oil, a great deal there, 9,002,000 odd, which I understand represents what for example?

A Sales to the railways and such.

Q Locomotive burning oil for the railway locomotives?

A Yes.

Q Not taxed?

A No.

Q And then we come to the total tax collected sales----

MAJOR LIPSETT: Coal oil is not taxed?

MR. FRAWLEY: Coal oil is not taxed.

Q MR. FRAWLEY: 39,167,346.10 gallons and then

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that last figure has been repeated in the second-last column and then Mr. Appleton has the percentage figure which is the total, which is the Imperial Oil's percentage of the total tax collected sales, namely 49.61; now that of course includes jobber business and what they call their own direct gallonage and the only other item which is not here, and Mr. Appleton can put that into the record, what was the Imperial Oil Company's percentage of the total Alberta sales?

A That would be 53.84%.

Q 53.84%. Now the only thing, Mr. Chairman, is, it occurs Mr. Appleton had done it this way and we might squeeze in another column there, Mr. Appleton?

A Well you would almost have to make another sheet I imagine showing those percentages alone.

Q It takes in, and I think perhaps the Commission is certainly as much interested in the tax exempt as tax collected gallonage itself?

A It is possible to put another column in here.

Q Yes, you could narrow your definition by even putting it in on an angle?

A Yes.

Q In that second-last column and then show that, 53%, what did you say it was?

A 53.84%.

Q Which is the Imperial's percentage of the total gallonage?

A Yes, of the total gallonage.

Q Now coming----

MAJOR LIPSETT: Just a second, that 53.84% is the Imperial percentage?

A Of the total sales in the Province.

Q Of everything?

A Yes, tax collected and non-collected.

Q Tax collected and non-tax collected?

A Yes.

MR. FRAWLEY: We can put into the record, Mr. Chairman, right now the further percentages.

MR. HARVIE: That just really means this first item, 49,000,000?

MR. FRAWLEY: 49,000,000.

WITNESS: Yes, that is the percentage of the 92,000,000 total.

Q On the last page?

A Yes.

Q On page 4; we have the total gross in the Province of 92,462,461.25 for 1958 and the various companies' percentages of that total, it has everything except the actual percentage?

A Yes.

Q And it is a matter of working out the percentage?

A Yes.

Q Now the next items are the importations from British Columbia and four companies only imported.

THE CHAIRMAN: I think so long as we have gone to all this trouble it would be interesting to show it on another sheet.

MR. FRAWLEY: Yes. Can we do it this way, sir, attach to this sheet.

THE CHAIRMAN: Yes, glue it on.

WITNESS: I believe the court reporters are putting this out in mimeograph form as I understand.

Q MR. FRAWLEY: Yes.

A And that could be put in there at that time.

Q But we would have to put it in here?

A It is right in there and can be put in here by pencil and put in in the regular one.

Q MAJOR LIPSETT: If you put in 53.84% in that first column, would that not give it?

A Yes, it is.

MR. FRAWLEY: Just to keep it clear, it is only three or four figures and we can easily dictate them to you for your own copies; but it is only a total of about a half a dozen figures but I would like to see it on the Exhibit myself.

THE CHAIRMAN: It can easily be added.

MR. FRAWLEY: Yes, and perhaps the man who made the Exhibit, Mr. Appleton, might add it in longhand?

A Yes I can.

Q MR. FRAWLEY: Let us put it in, the importations from British Columbia were very small?

A Yes.

Q Just .39% of the total tax collected?

A Yes.

Q MAJOR LIPSETT: Is that the percentage of the total?

A Yes, no, the .39% is the total of the tax collected; of the total it is .37%.

Q MR. FRAWLEY: Now the British American Oil Company, Limited and controlled gallonage, we can go to the total there, I need not read the figures, 25.01% of the total tax collected and what of the total?

A 22.97%.

Q The Gas and Oil Products, Limited and controlled gallons are 5.62% of the total tax collected and what of the total?

A 5.51%.

Q The Texas Company of Canada and controlled gallonage is 9.80% of the total tax collected and what of the total?

A 8.43%.

Q The Lion Oil Company and controlled gallons 2.21% of the total tax collected and what of the other?

A 2.11%.

Q The United States of America importations are 3.17% of the total tax collected and what of the total?

MR. HARVIE: This item will be to others other than the Texas which is already covered.

MR. FRAWLEY: Yes, you see them there. They are all listed.

MR. HARVIE: The United States importations to others other than listed there previously.

MR. FRAWLEY: Yes.

Q MAJOR LIPSETT: Before you pass from the Texas Company of Canada, is that 7,792,404 gallons, is that all imported?

A Yes.

Q MR. FRAWLEY: Yes, it is all imported?

A Yes, all imported.

Q From the United States of America?

A Yes.

Q That is at the bottom of page 2, all of the Texas Company, every bit of that is imported, 7,734,000.

MAJOR LIPSETT: 7,792 thousand, is it not?

A That is the total, yes.

MR. FRAWLEY: Yes, that is the total.

MR. HARVIE: Just be clear on that, Mr. Appleton, in addition to that, they did have additional Alberta sales?

A Yes.

Q And that is shown in one case----

MR. FRAWLEY: Well all the way through.

MR. HARVIE: The Imperial Oil.

WITNESS: Yes, and the Lion Refining and the Gas and Oil Products.

Q MR. FRAWLEY: And you will just have to go through there to find your other sales?

A Yes.

Q Oh yes, I see what Mr. Harvie means, to get the total percentage of the Texas and the total gasoline sold in the Province, you will have to add to their importations at the bottom of page 2, such gasoline as they bought from others shown on the sheet?

A Yes.

MR. HARVIE: Yes, and deduct it from the other people to show the true picture, in other words under the Imperial Oil this statement shows 53.84% but part of that was sold to the Texas and distributed by them.

MR. FRAWLEY: Yes, but the Imperial Oil Refinery and Marketer and everything rolled together had 53% of the total sales in Alberta?

A Yes.

MR. HARVIE: Surely.

Q MR. FRAWLEY: Now the United States importations were 3.17% of the total tax collected gallonage and what of the total gallonage?

A 2.74%.

Q 2.74?

A Yes.

Q Then your last group----

THE CHAIRMAN: Of course that does not include Texas as I understand.

MR. FRAWLEY: Oh no.

Q THE CHAIRMAN: All that 7,792 thousand, it is all imported from the United States?

A Yes.

Q So that the importations other than the Texas Company of Canada would complete that description?

A Yes, all the importations. I think that is clear on the last page.

Q MR. FRAWLEY: Well I suggest that might be a useful correction, Mr. Appleton, do you not agree, if you said "other than the Texas Company".

A You mean the heading there.

Q I mean the heading?

A Other than the Texas Company.

Q When you are making the other changes perhaps you might be good enough to put that in in long hand; then other independent companies dealing in, I take it that should be "in"?

A Yes it should be.

Q In its own production----

Q THE CHAIRMAN: Just a minute, if we want to know how much is imported from the United States we have to add that to this 2,496,722, do we not?

MR. FRAWLEY: There is no doubt about that.

THE CHAIRMAN: It is quite clear right now but I do not know as it will be so clear in a month.

MR. FRAWLEY: No, if you had those items numbered, this item at the bottom----

THE CHAIRMAN: And it may be that long before we are writing about this sheet?

A The last sheet shows the proportion of sales due to importations from the United States.

Q MR. FRAWLEY: Yes, that seems to cover it, the very last page?

A The last page.

Q He has a sort of summary there?

A On the fourth line down.

Q THE CHAIRMAN: And that would include----

A The Texas Company and the independents.

Q MR. FRAWLEY: Can that be just as well expressed in this language "proportion of Montana importations to total sales in the Province, 12.95%"?

A Yes.

Q The same thing?

A Yes.

Q Now let us just finish this because I want to go back to that United States importations item on page 3; now the last item you have, you call it other independent companies dealing in their own production of Turner Valley or Wainwright?

A Yes.

Q In other words all of those items now which are in this last group, that is all local crude, Alberta crude?

A Yes.

Q Sold by these various, through these various marketing companies?

A Yes.

MAJOR LIPSETT: Do you not want to get the percentages.

MR. FRAWLEY: Yes I do.

Q MR. FRAWLEY: And now the percentage of that is 4.19% of the total tax collected and what of the total?

A 4.07%.

Q Then you have in the totals, the final totals, total sales in Alberta 92,462,461.25 gallons?

A Yes.

Q Of that 450,062 gallons were sold to the Dominion Government?

A Yes, tax free.

Q 100,695 gallons and a fraction were sold as Varsol and tax exempt?

A Yes.

Q 1,766,804 gallons of coal oil, exempt?

A Yes.

Q 11,192,669½ gallons of heavy fuel oil, exempt?

A Yes.

Q Which leaves a total of tax collected sales of 78,952,230.28 gallons?

A It should be .25.

Q It should be .25?

A Yes.

Q That makes 100%?

A Yes.

MR. HARVIE: 78,952,025?

MR. FRAWLEY: No, 78,952,230.25.

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MAJOR LIPSETT: What is that, that third last column?

MR. FRAWLEY: That is this last sub-heading, that is the other independent companies,

WITNESS: It is the sub-head which begins on page 3 and carries over, that is the 2,330 thousand you are referring to.

Q MAJOR LIPSETT: Yes?

A That is a sub-total, well it is the actual total for the independent companies but it is just a sub-total of the 78 million.

MAJOR LIPSETT: Oh I see that. The figure was not carried forward.

Q MR. FRAWLEY: That is it, there was something not carried forward?

A I suppose it is the way that has been typed out.

Q Then you have some figures here at the bottom and you say that is the proportion of sales by Imperial Oil, Limited, Edmonton, is 31.08%, now what is that figure?

A That is just the sales made by the Company itself.

Q What it has been probably calling here its direct gallonage?

A Its own sales.

Q And the same figure for the British American Oil Company is 17.52% ?

A Yes.

Q The same figure for the Texas Company of Canada is 6.60%?

A Yes.

Q Now that is, just le us look at that for a minute, that means that that is the gallonage which they imported and

sold direct and purchased from Imperial, Lion, G. & O. P. and so on and sold direct?

A Yes.

Q And it excludes all of the gallonage which they sold to their jobbers, chiefly the Artic Oil Company, the Cardston Motors, Northern Light and so on?

A Yes.

Q That is clear?

A By the way, it seems to me, no, that must be right, I thought the Texas Company's percentage was different from that.

Q Their total importations were 9.80%?

A Yes.

Q And you have to subtract from that what they sold to jobbers?

A Yes.

Q And add what they bought locally and it may be that they jobbed some of what they bought locally?

A Yes.

Q For all you know?

A Yes, that figure is based on the 5,211 thousand gallons which they sold themselves.

Q The 5 million?

A That figure which was referred to in Exhibit "179" as the total sales by the Texas Company.

Q I see in Exhibit "179" the Texas Company of Canada is shown at 5,211,753 and 3/5 gallons?

A Yes, that is their total sales.

Q And that is the total sales on which they were responsible for taxes?

A Yes, this has to be broken down into the various products.

Q Quite so. Then you have a final figure there of 12.95%, being the proportion of sales due to importations from Montana?

A Yes.

Q Now will you look please at the item on page 3, of the United States of America importations, now a question arose this morning, Mr. Appleton, which you may be able to answer or if you cannot at the moment, you might make a trip to the Customs people at the Boundary and get the answer for us, the question which arose, the extent of the importations of Montana refined products and you are satisfied that only 2,496,087 gallons were imported and sold in the Province?

A That is right, that is outside of the Texas Company.

Q Outside of the Texas Company?

A Yes. I might say that there was a larger volume than that imported but it comes through Saskatchewan but it is not included in this.

MR. HARVIE: I think you should also take the other figure on the left.

Q MR. FRAWLEY: The 2,496,722, yes, just that small gallonage, making the total figure then 2,496,722 gallons?

A Yes.

Q Now let us look at those importers, the Consumers Oil Company, Calgary, do you know anything about their operations, and if so would you just describe them very briefly to the Commission?

A That all went to the Warner district South of Calgary.
Q South of Calgary?
A Yes, South of Lethbridge.
Q It is just a few miles from the Montana line. The Drumheller Independent Oil Company, 8,827 gallons?
A That is on the Drumheller district.
Q In the Drumheller district?
A Alone, yes.
Q They have a plant in Calgary, have they not?
A Well just recently, just this year.
Q Oughton Brothers,19,950 gallons, tell us something about them and where they operate?
A That is here in Calgary.
Q They operate in Calgary?
A Yes.
Q They are wholesalers?
A Yes.
Q And that gasoline would be consumed where, roughly?
A Right at their plant here in Calgary.
Q In the Calgary district?
A Yes.
Q Principally to farmer purchasers?
A No, I would say that that is mostly number 1 gasoline which they are bringing in, which is more or less for the ordinary automobile traffic.
Q They have a wholesale and retail business?
A Yes.
Q Hydro-Pete Oils, Limited, 105,227 gallons?
A Well there was some of that sold in the Claresholm district but I would say the majority of it in Red Deer.

Q The majority of it in the Red Deer district?

A Yes.

Q What would that be?

A That is just the white gasoline.

Q Just the third structure gasoline?

A Yes.

Q Sold to the trade?

A Sold to the farmer, probably.

Q Sold to the farmer probably, you would say?

A Yes.

(Go to number 10,697)

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Q Artic Oil Sales "77" Company, 17,470 gallons. What do those two names mean?
A It is just the "77" means the company at which the Artic Company purchased its gasoline. That comes from the North West refinery at Cutbank.
Q Yes. Can you tell us how far into the province that product reaches?
A It is sold in the local districts here in Calgary.
Q In and around Calgary?
A Yes.
Q Yes, and the Huff Refining Company, Lethbridge, 135,005 gallons?
A Mostly sold in the Lethbridge district. He does not sell very far in the north here.
Q Has he any outlets in the north?
A No.
Q The "77" Oil Company, Lethbridge, 346,773 gallons?
A That is also from Calgary south.
Q From Calgory south?
A Yes.
Q What kind of gasoline, is it second or third?
A First and second, or first and third.
Q We call first, Ethyl?
A No, they don't use Ethyl gas.
Q We will hear more about that. There is no leaded gasoline imported at all into Alberta from Montana except by the Texas Company of Canada?
A Yes.
Q The Beeker Oil Company, 87,918 gallons. What about that?
A I am not quite sure just what product that is,that they

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do import. I cannot tell you off-hand. I can check it up.

Q You can find out about that?

A Yes.

Q Lion Oil Companies, 61,653.

MR. COMMISSIONER LIPSETT: That Becker Oil Company. That is used in the Calgary area?

A Yes, that is all in the Calgary area.

Q MR. HARVIE: That is the Becker Oil Company?

A Yes.

Q Calgary north?

A Yes.

Q MR. FRAWLEY: When you say Calgary north , how far north?

A The Calgary area. They have one station at Camrose, but there is very little passes through that. It would be mostly in the Calgary district.

Q The Lion Refinery Company, 61,653?

A They have stations all over the province, and it is pretty hard to say what percentage of that would go to the different ones.

Q What gasoline is that?

A That is Number 1, or Bronze gasoline, they call it.

Q That they import from.........?

A The Big West.

Q At the moment, Mr. Appleton, we are told they are selling, I do not know for how long back, standard gasoline which they purchased from the Texas Company?

A Yes, I know. There is a funny thing about this gasoline. The Texas Company sell Bronze, and so do the Big West. It may be that they substitute one for the other. I cannot say about that.

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Q You say the Texas Company sells Bronze gasoline?

A Yes, and so do the Big West.

Q And they sell the Big West. You say the Texas Company in Montana.........?

A No, the Texas Company do not sell the Big West. But the Big West also sells Bronze gasoline.

Q Bronze unleaded gasoline?

A Yes.

Q You do not know what this 61,653 might be?

A No.

Q MR. COMMISSIONER LIPSETT: And that might be sold all over the province as far as you know?

A Oh, yes.

Q MR. FRAWLEY: Gas & Oil Products Limited, 37,905 gallons?

A Yes.

Q What do you say about that?

A I would say it is Number 1 gasoline that they bring in and sell.

Q All over the province?

Q MR. COMMISSIONER LIPSETT: When you say Number 1 you mean standard gasoline?

A Yes, standard gasoline.

Q MR. FRAWLEY: B. A. Oil at Coutts, 815?

A That is just an importation that they brought in there. I do not know just what it is.

Q It is an isolated transaction?

A Yes.

Q Taber Motor Company, at Taber, 21,589 gallons?

A That was oil purchased by Trimble and brought into the country here and sold to them. They would be using

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Number 3 structure and standard gasoline sold in the Taber district.

Q Sold in the Taber district by the Taber Motors?

A Yes.

Q Trimble & Sons, Lethbridge, 458,998 gallons?

A Yes, that is sold in the southern part of the Province.

Q Individual farmer imports, 1,188,892 gallons?

A Yes.

Q What can you tell us about those?

A That was individual imports into the province by the farmers themselves, and I would say that outside of the odd one which goes to the north country, they are all south of Calgary. In fact, most of them, I think, are south of Lethbridge.

Q MR. HARVIE: How many individuals would there be, do you know, Mr. Appleton?

A It is pretty hard to say that.

Q A dozen or over?

A Yes, three or four hundred. We have the figures of the actual importation of that all in here, but it would take some time to compile it all.

Q You have the information?

A Yes, we have the information if we have to get it.

Q MR. FRAWLEY: You can tell us every single individual that imported, because your check with the customs is very close, and they advise you of those importations?

A We have an agent at the various ports along the line who report to us every week, and once a year we check those imports against the Customs Entries themselves.

Q As a truck of gasoline comes through the Customs it pays

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1¢ duty and the 7¢ or whatever it is, the tax that they pay to you?

A Yes, unless it is imported by various agents of the government who are tax collectors.

Q And that is paid later?

A Yes.

Q MR. COMMISSIONER LIPSETT: I notice on Page 3, under Lion Refinery, an item under Texas Company of 388,171 gallons?

A Yes.

Q Is that importation in addition to the Texas Company's importations?

A No. That is gasoline that the Texas Company sold, which they purchased from the Lion.

Q MR. FRAWLEY: Locally?

A Locally.

Q MR. COMMISSIONER LIPSETT: It is not imported at all then?

A No. That is all third structure gasoline that they buy like that.

Q MR. FRAWLEY: The Texas Company, I think it is in evidence, imports very little of that third structure gasoline. They buy that locally from the Imperial and the Lion Oils and the Gas & Oil?

A Yes.

Q THE CHAIRMAN: I suppose it is quite clear to everybody else, but could you tell me in one figure how much gasoline was imported from Montana in the year 1938?

MR. FRAWLEY: In gallons?

THE CHAIRMAN: In gallons. I do not care who imported it or what they did with it.

MR. FRAWLEY: Yes, let us figure that out.

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THE CHAIRMAN: We are told that a very considerable amount of gasoline is dumped into this country. I would like to know how many gallons are brought in here.

Q MR. FRAWLEY: Insofar as the Alberta consumption is concerned, I think this will be the exact figure for you?

A 10,231,081.

Q THE CHAIRMAN: What is that figure, please?

A 10,231,081.

Q Gallons?

A Yes.

Q In the year 1938?

A Yes. Of course I might say this, there is more gallonage than that imported into this province, but it goes right through to Saskatchewan. This is just the Alberta imports shipped into this province.

Q MR. FRAWLEY: At the momentt, we are worrying about the situation in Alberta, and that is a figure of 10,000,000?

Q THE CHAIRMAN: That is from Montana?

A From Montana, yes sir.

Q MR. FRAWLEY: That is out of a total Alberta sales of 92,462,461¼ gallons?

THE CHAIRMAN: Just give me that, Mr. Frawley, again?

MR. FRAWLEY: 92,462,461.25 gallons.

Q MR. COMMISSIONER LIPSETT: In the importations is there some other item as well as the items under the Texas Company of Canada and other importations?

MR. FRAWLEY: Will you just give the Commission a break-down of that figure you have given me?

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A The break-down of 10,000,000 is the total importation from the United States other than the Texas Company of 2,496,087.

Q On Page 3?

A Page 3.

MR. COMMISSIONER LIPSETT: 2,496,722, is it not?

A Oh, I see.

Q MR. FRAWLEY: You are taking the tax collective?

A Yes.

Q It makes a small difference. Better take the corrected figure, 2,496,722. What is the next figure?

MR. COMMISSIONER LIPSETT: It is a very small difference.

MR. FRAWLEY: Yes, but we might as well get it absolutely right. We have the corrected figure for you, Mr. Chairman.

A The figure I gave you, Mr. Chairman, was the actual tax collective sales. The total importations were 10,288,726.

Q MR. FRAWLEY: Yes, 10,288,726½. There is a half-gallon there?

A Yes.

THE CHAIRMAN: Imported into Alberta from Montana.

Q MR. FRAWLEY: Now, Mr. Appleton, we have heard about....... Mr. Miller told us this morning in 1938 trucks were taking refined petroleum products from Montana as far east as Brandon?

A Yes, they were.

Q Some of those might come through our Alberta ports at Coutts and other places?

A I believe there was the odd one came through, but most of them went east to North Portal, and went north from there.

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At least, that is what they were doing in 1935. There is a number hauled through here to Prince Albert, Saskatchewan.

Q You were telling me that. That may be of interest to the Commission. How far is it from the point of origin in Montana to Prince Albert, Saskatchewan?

A It is a trifle over 600 miles.

Q And some of it is being trucked 600 miles into Prince Albert?

A Yes, Prince Albert, Saskatchewan.

Q THE CHAIRMAN: Before you get into another province. That is gasoline of all grades?

A Yes.

Q Have you a figure on crude oil?

A No, there is no crude oil in this at all.

Q MR. FRAWLEY: Have you any knowledge, or could you obtain the importations of crude oil into Alberta?

A Oh yes, we have a record of that in Edmonton.

Q You have a record of that in Edmonton?

A I haven't it here with me.

Q It may be useful to put that down beside it?

THE CHAIRMAN: I would think so.

Q MR. FRAWLEY: Let us get that. That is something you collect purely for statistical purposes?

A As a matter of fact, I think Mr. Cottle could practically give you that right up to date. That has been handed over to him regularly every month.

Q It comes from your department in Edmonton, though?

A Yes.

Q Why do you keep that record?

A For statistical purposes, I suppose.

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Q To check on what came out of the refinery, you would have to check up what goes in?

A Yes. We get a report from all the companies on the 15th of each month covering the month previous, and all importations across the line are checked by our own agent there, and we check these once a year against the Customs Entries themselves.

THE CHAIRMAN: Now, you are getting that figure on crude?

MR. FRAWLEY: Yes.

Q THE CHAIRMAN: Now, as I appreciate the evidence, there is a suggestion that the importations into Saskatchewan and Manitoba from Montana have a very direct effect upon the Alberta position?

MR. FRAWLEY: Yes, there is some suggestion to that effect. I will go to any length I think I can. But certainly Mr. Appleton would not be able to give us anything but a few generalities. I might be able to by approaching the departments in Winnipeg and Regina. But no, I think I tried that before. Do they keep a record just as you keep here in those other provinces?

A Only on gasoline.

Q And it would eliminate what?

A All distillates, anything below 44½ gravity.

(Go to Page 10,706)

Q There is a considerable number of those coming in?

A Yes, there is.

Q THE CHAIRMAN: As I understand the witnesses for the oil companies we have thus far heard, they suggest that there is a dumping of gasoline from Montana and that it affects their volume and so affects their costs, and seriously so. That is the suggestion we have had made.

MR. FRAWLEY: Oh, yes, sure.

THE CHAIRMAN: While we are inquiring into it, we know what comes into Alberta at the moment. We know how serious that complaint is. Do we know what is going into Manitoba and Saskatchewan from Montana? It has been stressed before us that volume matters.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And if the volume is being interfered with through the non-application of dumping duties in cases in which it should be applied we should know it. That is what strikes me at the moment, Mr. Frawley.

MR. FRAWLEY: All I can say about that is that I will write Winnipeg and Regina and see what I can get. But I would like to exhaust Mr. Appleton----

THE CHAIRMAN: The responsible officers of both the Imperial and the British American have seemed to look upon that as a serious matter.

MR. FRAWLEY: Yes.

THE CHAIRMAN: So I think we should not in any way ignore it without attempting to look into it.

A We would have a complete record of all coming through this Province for Saskatchewan but what would come into Saskatchewan from points further east we have no knowledge of.

Q MR. FRAWLEY: Through North Portal and the other points?

A Yes.

THE CHAIRMAN: One can only do their best, but if it is obtainable it would be completing your picture to put it before us.

Q MR. FRAWLEY: Do you have any knowledge about this----it has been suggested that the Montana refiner is pretty careless, well, he does not insist, put it that way, does not insist upon collecting from the Alberta farmer - let us take him as an example - who goes down there with his tank truck and loads up and comes back to Alberta; that they will give him a price which they will not give that particular farmer's opposite number in Montana if he went in with his tank truck to the same refinery, say the Big West at Kevin, that he would not get the same price as the Alberta farmer going in with his truck for the same product. Do you know anything about that?

A No, I would not know anything about that.

Q MR. COMMISSIONER LIPSETT: Do you know anything about the prices for these importations that you have statistics on?

A I have seen all the prices but to remember now it would be pretty hard to do;

Q Are they all on the documents that come before you?

A Yes, all importations at the boundary, custom's importations.

Q Would it be possible to get, say as to this U. S. A. importations column, would it be possible to get the prices from the invoices, a general picture of them, if not all in detail?

A Well, I do not know whether I would be at liberty to examine Dominion Government Custom's entries and then give information on them before any Commission.

Q You would have to get some permission?

A I would have to get authority for that, I would think. My authority only allows me to examine those documents covering our own importations into this Province, and I do not think it would allow me to get information as to what I see, that is as far as prices.

Q It does enable you to give the quantities but not the prices?

A Yes.

Q The point of interest is this, Mr. Appleton, we have been told that around 8 cents is the price charged for what is coming into this Province as against 14 cents for what is sold in Montana?

A I can go so far as to say in some cases the price is less than 8 cents.

Q MR. FRAWLEY: Let me make this suggestion, if you have some information I think we might easily get around any question about disclosing information as you say, by getting the consent of the people whose invoices you were looking at. There would not be any difficulty, would there? If you stopped a farmer's truck and checked it for tax purposes and looked at his invoice and told him you were going to convey that information to this Commission, he would not have any objection at all, would he?

A No.

THE CHAIRMAN: What objection could he have? If necessary, we will call the farmer and have him bring his documents.

MR. FRAWLEY: But just to get it quickly through

Mr. Appleton and to eliminate from Mr. Appleton's mind any suggestion of a breach of confidence.

THE CHAIRMAN: There would not be a thought of calling on the marketers?

MR. FRAWLEY: No.

A Gasoline has been bought down there as low as 5½ cents.

Q 3rd structure gasoline?

A Yes.

THE CHAIRMAN: I do not know how important this is but we have had it stressed by Mr. Halverson and Mr. Miller, and they strike me as witnesses who do not speak without having some reason for speaking-----

A I have to be at Coutts on Friday afternoon and on Monday I could give you the exact prices, if that is permissible.

Q MR. FRAWLEY: I would like to have a talk with you and I would like to make as much use of you as I can.

MR. COMMISSIONER LIPSETT: I was interested from another point of view, that through a deputation to the Minister of Trade & Commerce at Ottawa, he made the definite statement to us that if there was evidence produced to him of dumping he would put the dumping duties in force at once. That was with reference to another commodity. But I was just interested in knowing whether representations had been made to the Government if there was this competition from products that were dumped.

MR. FRAWLEY: I think the Alberta Petroleum Association has done something of that kind and they have made representations. I do not know what the major oil companies have done about that, that are selling gasoline in this Province. And the biggest violator of the anti-dumping laws, if there is a violation, is the Texas Company.

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MR. COMMISSIONER LIPSETT: That may not be the case. They may be taking it in at the full price.

MR. FRAWLEY: They are certainly selling it at the full price and I cannot get that out of my head, that is important.

MR. COMMISSIONER LIPSETT: The producers' Association made their representations to the Dominion Government but were interested really in crude and we have it from Mr. Miller that there was something done about crude.

MR. FRAWLEY: They are interested also in gasoline and I think they included that in their representations and they sent down------that might all be explored - they sent down some people to investigate. That was one of the things that was in my mind when I asked the Texas Company to make available their customs brokers here, Messrs. Allan & Johnston. They should have some knowledge about that. It is the crux of it. The Dominion Government's job is to see there is no anti-dumping----

THE CHAIRMAN: To see there is no dumping.

MR. FRAWLEY: To see there is no violation of the anti-dumping clauses. The Texas Company are bringing in thousands of gallons every day. Now, it is not to be supposed---I do not know, I have no brief either for or against. One might think a little trickle of Montana gasoline might not be such a harmful thing;

MR. NOLAN: There are 10 million gallons.

THE CHAIRMAN: Quite a trickle.

MR. NOLAN: Yes, quite a trickle.

MR. FRAWLEY: That is keeping the price down to the consumer in southern Alberta.

MR. HARVIE: And putting it up to the consumer

in the north.

2 MR. NOLAN: I do not understand with respect to these dumping regulations to what commodity they apply and do not apply. I wonder if there is not some gentleman from the Dominion Government, in the Customs Branch, who would be good enough to tell us what the duties are and whether they are enforced and if not why not, and what the position is. Just to say there is dumping means nothing to the Commission. These products are allowed to come in and there must be some explanation of it.

MR. FRAWLEY: It is in a very bad state of mis-information at the moment, as far as this Commission is concerned. It has to be straightened out. I thought I would be making some progress by asking the Customs brokers.

MR. NOLAN: Why not get the Customs officials?

MR. FRAWLEY: I am afraid they would say "I have nothing to say unless Ottawa tells me to." As far as forcing them, I consider---well, there is no need of being pessimistic about it. I can talk to the Customs people and find out how far they can go.

MR. COMMISSIONER LIPSETT: I do not think they can do anything until it is shown that the stuff is coming in at a certain price here and that that is below the market price across the border. The Customs official does not know, necessarily, or officially, what the market price is across the border unless it is brought to his notice officially in some way.

MR. FRAWLEY: That is the investigation we heard something about from somebody. Two men by the name of Knowles and Fisher. Customs officials.

THE CHAIRMAN: We were told in connection with the Texas Company.

MR. FRAWLEY: I think the Texas Company. Mr. Knowles and Mr. Fisher went down and made some inquiries and they are the people---it is not of much value in my view about it but it seems passing strange to me that the Customs officials when they could collect an extra cent a gallon for the Dominion treasury would not be alive to their job.

THE CHAIRMAN: On the other hand, it would be very strange if a man like Mr. Halverson would say "While we have anti-dumping laws they are not enforced, to the disadvantage of the oil companies operating in Canada." That is confirmed by Mr. Miller, who speaks with every sense of responsibility.

MR. FRAWLEY: I am not taking any position about it. It has to be explored. It is in a very bad state at the moment as far as being clear to the Commission.

THE CHAIRMAN: We are trying to find ways and means of finding out what a proper price should be. It should not certainly be on the basis of saying that the oil companies could operate for something less. Every other means should be explored.

MR. FRAWLEY: Oh, yes.

MR. HARVIE: Just in that connection it might be very helpful if we could get one of these three or four hundred truckers or one of these dozens of other independent companies who have gone down and bought a considerable quantity and brought it in. They might give us the history of their experience down there.

MR. FRAWLEY: Well, Mr. Appleton could line them up from wall to wall;

MR. HARVIE: We do not want them lined up.

MR. FRAWLEY: We could get lots of them.

MR. HARVIE: Then should we not do it?

MR. FRAWLEY: I am not refusing to do it.

THE CHAIRMAN: It is one-tenth of the total sales in Alberta.

A I would say that the best person to get in that connection would be Trimble and Son.

MR. FRAWLEY: I have in mind calling Trimble.

A I think he enjoys about the largest business.

MR. COMMISSIONER LIPSETT: As against the figure of 8 cents Mr. Appleton puts a lower figure of 5½ cents.

MR. FRAWLEY: What we have to get is a comparable figure in Montana, and that is my difficulty at the moment, getting that comparable figure. Mr. Harvie is bringing a man on Monday, this man Dempsey - he will be here on Monday?

MR. HARVIE: Yes, we are bringing the man who has the most information on the whole thing as far as we are concerned.

THE CHAIRMAN: That will be helpful.

Q MR. HARVIE: In connection with the item of sales of heavy fuel oil on page 4, 11,192,699.5 gallons?

A Yes.

Q There is none of that type of product being imported?

A No.

Q That is the heavy residue left from the refineries?

A The heavy residue from the refiners.

Q Sold to the railways for fuel oil?

A To railways and oil companies drilling wells for fuel

purposes.

Q Heavy fuel?

A Yes.

Q It should be deducted for the purposes of comparison from the other figure?

A That is why most of my figures were based on a tax collective basis.

MR. COMMISSIONER LIPSETT: What is that?

A On account of it being heavy fuel, really the residue from the crude, all my percentages were based on the tax collective sales, which is the actual consumed gallonage in the Province.

Q MR. NOLAN: Might I ask Mr. Appleton a question. We have heard something here, Mr. Appleton, about farmer dealers. Do you know what farmer dealers are? Do they come within the orbit of your duties?

A Yes.

Q What are they?

A A farmer dealer is just a person who you might say is set up by any one of the independent oil companies to sell for him on consignment. You might say living within a mile or five miles of any small town.

Q Is he in business all the year round?

A No. They mostly just operate during the Summer.

Q During what we call the peak season?

A Just the business part of the season.

Q Then what happens to them?

A Then they generally fold up till the next Spring.

Q Do you issue them a licence. Well, what are your duties?

A I am an auditor.

Q You have nothing to do with licences?

A No, not now.

Q Do these people have licences or do you know?

A In some cases, and not in some other cases. The independents use them as agents of their own. That is, they will issue invoices belonging to the individual independent.

Q They will issue invoices belonging to the individual independent?

A Yes, the farmer dealers will not have books of invoices provided of their own. They will use invoices belonging to the company whose products they are selling.

Q Then it is part of your duty, I take it, to go around amongst these farmer dealers and see that the tax is being collected, is it?

A No. The taxes have to be collected by the agent who makes the sale of these products in the first instance.

Q How do you know about the farmer dealers. How do you come in contact with them?

A Every month we have any town dealers give us a report of the actual gallonage which they purchased and how much they sell and to whom the gallonage is sold.

(Page 10,716 follows.)

We have these for reasons of refund purposes, as you know. The farmers are allowed a refund on gasolene.

Q THE CHAIRMAN: How do you know who they are unless they take out a license?

A We get that from the agents of the Minister because they audit them once a year.

Q MR. NOLAN: When you say they are out of town, take a small town, Okotoks for example, there are a certain number of dealers in Okotoks?

A Yes.

Q Then these farmer-dealers would be outside of the town?

A Utlizing their farm home as an agency for the Oil company.

Q As an agency of the Independent Oil Company?

A Yes.

Q I think I understand you.

A Yes.

Q THE CHAIRMAN: And you say they are not required to be licensed?

A They are required to be licensed, yes, but the way they get about it, they are the agents of the Minister, they claim they are agents of theirs.

Q MR. HARVIE: They are employess you mean?

A Well, that is what they call themselves, actually they are not and so far the question is really in abeyance right now, they are still arguing about it in Edmonton, whether they are going to license them or close them out.

Q What these farmer-dealers should be required to be --

A They should be licensed dealers on their own.

Q And also have automobile truck licenses, commercial licenses?

A Yes.

Q And do they as a matter of fact?

A Well, the odd one does not.

Q The odd one does not?

A Yes.

Q And I suppose the odd one does?

A Yes.

MR. FRAWLEY: It is a very nice thing to know that the odd one does.

MR. NOLAN: It is one of the things that we will know more about later on when some of the Independents come in to explain their marketing setup but I have been at a little loss to know what useful purpose these farmer-dealers serve or how long they are in business during the year?

A Some of the Independents call them just straight consignment accounts, which is just another name for them.

Q MR. FRAWLEY: You realize, Mr. Chairman, what Mr. Plotkins was talking about to Mr. Halverson at great length. Mr. Plotkins is the man who has most of them?

A Yes, he has quite a number of them. Of course, he is not the only one. There are others as well.

Q MR. FRAWLEY: He will tell us all about them I am sure. He will defend them and praise them and we will hear all about them. Thanks, Mr. Appleton, if you will make those corrections. I have the original Exhibit here. All right, Mr. Miller.

THE CHAIRMAN: Mr. Hervie, just before you proceed with Mr. Miller, Mr. Frawley, Mr. Appleton used

the expression "agent of the Minister"?

MR. FRAWLEY: Yes, that is an expression peculiar to his capacity and perhaps he should explain that a little bit more.

THE CHAIRMAN: Perhaps it would be as well, just from where he is.

MR. FRAWLEY: Will you stand up where you are?

HENRY JOSEPH APPLETON, having been recalled, examined by Mr. Frawley said:

Q MR. FRAWLEY: The Chairman has mentioned the fact that you spoke of the agent of the Minister, what does that mean?

A The Agent of the Minister is a person or a company who is appointed to collect the taxes on this gasoline for the government.

THE CHAIRMAN: Oh, yes.

Q MR. FRAWLEY: In other words, the Imperial Oil Company is an "Agent of the Minister"?

A Yes. As a matter of fact, every one of those mentioned in Exhibit "179" are all agents of the Minister.

Q Exhibit "179" that is --

A That list supplied there.

Q MR. HARVIE: Are there any other than that, Mr. Appleton?

A None.

Q MR. FRAWLEY: Let us see how it works out, what is the advantage of being an agent of the Minister and the disadvantages of not being?

A Well, well the ordinary dealer who is not an agent of the

Minister has to pay the taxes at the time of the sale to him.

Q And if he is the agent to the dealer?

A He purchases it less the tax.

Q Take the situation between the British American Oil Company and the Great West Distributors, if the Great West was not an Agent of the Minister they would have to pay the 7 cents tax on all the gallonage as and when they bought it from the British American?

A Yes.

Q But being an agent of the Minister, as they are of course?

A Yes.

Q Then they take all of their gasoline tax free, as you call it, from the British American Oil Company?

A Yes.

Q And when they sell it in turn, if they sell it to an agent of the Minister, they in turn sell it tax free but if they sell it to one who is not an agent of the Minister or a consumer, then they collect the tax?

A Yes.

Q THE CHAIRMAN: And are any of the consumer-farmers agents of the Minister?

A No.

MR. FRAWLEY: The whole is plugged a little higher up than that.

THE CHAIRMAN: All right, thank you.

ALFRED HERBERT MILLER, having been recalled, examined by Mr. Harvie said:

Q Mr. Miller, just referring to that last Exhibit?

A Yes, I would like to.

Q Have you any comments to make about that?

A Yes, I would like to make some comments about that.

THE CHAIRMAN: Which one is that?

Q MR. HARVIE The one which Mr. Appleton just put in.

A I was quite interested in that information because of our Graph No. 3, we showed the importations from Montana into Canada, 15,266,517 gallons. Now not having all the information of destination and so forth that Mr. Appleton produced, that figure naturally might be out as far as the Province of Alberta is concerned but as I said this morning, there are importations coming through the Montana boundary to Alberta into Saskatchewan; there are likewise importations coming direct from the Dakotas into Saskatchewan and from the Dakotas into Manitoba but I think they are very small at that end. Now, Mr. Frawley, you stated that or you got that figure down, rather, to about 10,000,000 gallons so far as Alberta goes, is that not right.

Q THE CHAIRMAN: 10,288,726½ gallons?

A That is right, sir, and then you spoke of that percentage of the total of the products sold in the Province of Alberta which you show --

Q MR. FRAWLEY: 12.95%?

A I beg your pardon.

A. H. Miller

Q 12.95%, Mr. Appleton says?

A No, I am taking about the total figures, the total sales for Alberta.

Q THE CHAIRMAN: 92,462,461.25 gallons?

A That is right, sir. Now so far as the taxable gallonage is concerned we are more interested in that, that is the importations from Montana are really taxable products used either in the motor cars or tractors or buses or other forms of transportation in Alberta. In that figure of 92,462,461 and a quarter gallons there is over, there is 11,192,669.50 gallons of heavy fuel. Therefore, I think that it would be more comparable in considering the percentage of Montana importations, in other words, it would be more fair, to consider the Montana imports in consideration with the tax collected sales in the Province of Alberta or the light oils in Alberta and not against the heavy fuels that are consumed, which are residue and consumed in locomotives etcetera.

Q MR. FRAWLEY: That is what it is, the 13% is the tax collected sales?

A I thought I understood you to say, Mr. Frawley, when you said the total sales of 92,000,000 gallons.

Q That is right, the total sales are 92,000,000.

A And you are making the percentage of the importations to that only a trifle and I say in comparison to the taxable figure it is a big amount.

THE CHAIRMAN: I see the point. Now what is the taxable then?

A The taxable, sir, is 78,952,230 and one quarter gallons.

Q MR. FRAWLEY: Now, what are you saying about percentages?

A What I am saying, Mr. Frawley, is this, that in order to get a fair comparison and particularly the Province of Alberta, should be interested in that because of the road taxes which you collect on these products, these products which are coming in from the State of Montana are not heavy fuels used in locomotives or residue or asphalt or other heavy products, they are light oils.

Q We are entirely at cross-purposes. Look at the statement, 12.95%, Mr. Appleton says that that, 13%, let us call it, is the percentage of importations from Montana compared to the 78,000,000 odd you are now giving the Chairman?

A I would like that to be clear and I was not clear. It was my understanding you were making a comparison with the total, which includes heavy fuels.

Q No, do not be concerned about my comparison, it is what Mr. Appleton has submitted in these Exhibits and it is clear what the 12.95% is.

THE CHAIRMAN: Anyway it is clear now, you say you should compare the 10,288,000 with the 78,952,000?

A Yes. I think that is the better comparison.

MR. FRAWLEY: And that is the 12.95%. Perhaps I am not understanding?

THE CHAIRMAN: That works out in percentages but he wanted it clear and I had not got it myself.

MR. FRAWLEY: Do you see the figure now, Mr. Chairman, it is this figure here? If I interjected something perhaps which was contrary to something which Mr. Appleton said, I did not mean to do so.

A Whether it was done unintentionally or not, Mr. Frawley, the fact remains or we maintain anyway, that this importation into Canada at the distressed prices of the United States has a great bearing on the cost and operation of our business.

Q Oh, yes. We have this 13% --

A Then --

Q MAJOR LIPSETT: Mr. Miller, the original table was made up exactly as you are putting it now but I think we asked for these other percentages of the non-taxed and these were filled in during Mr. Appleton's examination?

A Quite right.

Q We have them both now?

A But I do think that it is an essential point.

Q Yes, it is.

A I do not think it would be a fair comparison unless the light oils were considered.

Well then, in going back to my Graph No. 3, the importations into Canada from Montana, for the years 1937 and 1938, I apparently in my explanation of that graph conveyed the information that that 15,266,517 gallons may have come into Alberta, so we will say the difference between the 15,266,517 gallons has possibly gone on into the Province of Saskatchewan which amounts to how much?

MR. HARVIE: Just about 5,000,000.

WITNESS: I think there is the possibility too, something funny about the amount of individual farmers who make purchases and sales. I have not the necessary

A. H. Miller

information with me right now but I believe there are a great number of those what they term their individual purchases by individual farmers are purchases in the State of Montana and are brought into Alberta and are not used on farm consumption. They are brought in and sold to dealer outlets with independent pumps. As a matter of fact, we know that to be the case in many areas and I will get the figures if I can in connection with it; therefore these people go down there, they are not going down there to buy that and bring it back for their own farm use 100%. They are in the business. They are down there buying and reselling up here in some cases.

Another thing I would like, I think might be interesting, Mr. Frawley, is, I do not know whether this is correct or not but the reports coming to me are that a number of these people are going down to Montana and buying this gasoline, these particular people you speak of here and Mr. Appleton speaks of, operating their trucking equipment with a special license. Are there two classifications of licenses in the Province?

MR. FRAWLEY: Yes.

WITNESS: Is there a cheap license?

MR. APPLETON: There is an ordinary farmer's license and also the B.

WITNESS: Is there not a big difference in the case of those farmers?

MR. APPLETON: Yes, quite a lot.

WITNESS: Our agents complain about that, what is that rate?

MR. APPLETON: The wheel base would be the

same but the heavy truck would have to pay a heavier fee which might run anywhere from $50.00 to $500.00.

WITNESS: What is the difference between the two licenses.

MR. APPLETON: There is really not much difference.

THE CHAIRMAN: On the wheel base for the one and the other is what?

MR. APPLETON: One is on the wheel base and the other on the freight.

WITNESS: There is not a special farmer's rate.

MR. APPLETON: Yes, there is the D for the farmer.

WITNESS: In some provinces they have a low rate for the farmer where he uses it for his own purposes but once he goes into a business and starts to haul for other things he has to pay another rate.

MR. APPLETON: We have the same here. The ordinary farmer's rate is about, $35.00 would be the high rate.

MR. FRAWLEY: Mr. Appleton can give you all this information now. He belongs to that same department and he can put it on the record if you wish.

WITNESS: Well Mr. Knowles of the Customs Department has worked in Western Canada for many years and is more familiar with these importations into Canada from the United States than anybody else in the Western Provinces and perhaps more familiar with them

than most people even in Ottawa, he is more familiar with them than anyone else I know of and I wondered if somebody like Mr. Knowles could not give more information about this that would be of help.

MR. FRAWLEY: Do not misunderstand me, if you want to get any information with respect to such licenses, Mr. Appleton can give it to you.

WITNESS: No, I do not want any. I just asked that question, I was not clear myself.

MR. FRAWLEY: Let us get it, if it is of any value to you, let us put Mr. Appleton in and get this information as we go along.

MR. HARVIE: I think it would be helpful.

MR. FRAWLEY: Yes, Mr. Miller is making a point of it and you may make a point of it later.

WITNESS: Of course the method of issuing licenses in this province, makes the question of handling all these importations and trucking operations and that, very difficult. In many provinces --

MR. FRAWLEY: I am not in disagreement with you, Mr. Miller, at all.

THE COURT: No and we want to hear Mr. Mill finish.

WITNESS: In many provinces today or at least some provinces they are restricting the licenses, that is the licenses to collect that tax, boiling it down to just a few, the shippers, the major companies; in other words the actual refinery that ships the goods, and the gasoline tax is collected when he ships those

goods, for the government, at that time, right there, instead of having it as you have it in Alberta. I can give you the number, I think it is very considerable, possibly 75 or 100 licenses, while in these other provinces there are only 6 or 7 and that not only cuts administration costs in connection with the collection of gasoline taxes but it also plugs up a lot of holes for leaks which might happen.

Q MAJOR LIPSETT: Is the point you are making, Mr. Miller, and you want to find out from Mr. Appleton in the first place, that the farmer goes down and gets gasoline, presumably for his own use and then resells it and secondly that in doing that uses a truck for which he only has a farmer's license, uses that truck for the purpose of getting these products?

A As I said, Mr Commissioner, I understand from reports I have received that there were different forms of licenses and therefore if it is for farm purposes, if the license is issued for farm purposes and to be used only for farm purposes, my understanding is that that particular license cannot be used for regular transportation purposes.

THE CHAIRMAN: And it is your information that it is in some instances so used?

A Yes, all of which eats away at the foundation and just makes it that much tougher for our agents and other people to do business.

THE CHAIRMAN: All right. I think we will hear Mr. Appleton about the licenses, if you do not mind resting again, Mr. Miller.

HENRY JOSEPH APPLETON, having been recalled, examined by Mr. Frawley said:

Q Mr. Appleton you, I do not want to press you any further than you would like to go in dealing with this, because at the moment, if necessary, we can bring somebody else from Edmonton to explain it to the Commission, but so far as you know, what is the situation with regard to the licenses, each farmer first of all is required to take out a license for his truck?

A Well, the farmers have a plate for which I think the highest price runs around $35.00 and the cost of the license for other trucks is about the same as it is to farmers.

Q You say $35.00, what is the basis of the tax for the farmer's truck?

A Wheel base.

Q THE CHAIRMAN: That is true of all cars, motor cars?

A Yes.

Q It is just the same as our motor cars?

A The highest priced wheel base, I think, runs around $35.00.

Q MAJOR LIPSETT: Is this for trucks?

A Yes.

Q Distinct from motor cars?

A Distinct from motor cars.

Q MR. FRAWLEY: But on the same basis?

A On the same basis.

Q In the case of the farmer, if a farmer operates his farm truck he pays the same for his license as is comparable with what the city man pays for his motor car?

H. J. Appleton

A Yes.

Q Just on the wheel base?

A Just on the wheel base.

Q Yes, if you are a farmer with a truck of 125 wheel base and I have a car of 125 wheel base, we both pay the same license fee?

A They are both based on the wheel base.

Q MR. FRAWLEY: What is the next?

A Commercial vehicles, the license on those is based the same but there is an extra fee called a "freight fee", which they charge on them, which is handled by the Highway Traffic Board in Edmonton and this "freight fee" runs anywhere from $50.00 to $500.00, based on the weight which they carry.

Q MR. HARVIE: Actually a different license than the car?

A It is a different license entirely.

Q MR. FRAWLEY: It is a different plate?

A It is a separate plate.

Q And it is issued by a different department under a different Statute?

A Under a different setup.

Q For the record it is called the P.S.V., Public Service Vehicle License?

A Yes.

Q Now then, if a farmer is using his truck as a public service vehicle then he goes to the Highway Traffic Board and buys another kind of license?

A Yes.

Q In addition to what he has paid to the Department of the Provincial Secretary as his wheel base license?

A Yes.

Q And you say this P.S.V. license is graduated upon what?

A Upon the weight which they carry, the carrying capacity of the truck.

Q And might run anywhere from a low --

A Of $50.00 up to $500.00.

Q Now is that the only kind of license, just those two kinds of license?

A Well, they have a license for the city just driving around the city and five miles outside it.

Q Let us hear about that, you say there is a third kind of license for a truck which does not go out of the city beyond five miles?

A Yes, and that is just a straight wheel base.

Q That is a straight wheel base also?

A Yes.

Q Is there any designation for that?

A Yes, they have a "C" on their plates.

Q That is called a "C" license?

A Yes.

Q And what is the farmer's license called?

A A "D" license.

Q And if he is a farmer using his truck simply to get himself and his goods back and forth to town, then he only has a "D" license?

A Yes.

Q And what is the "B" license?

A That is the commercial.

H. J. Appleton

Q That is the commercial license?

A Yes.

Q Well now just a minute, this is not the P.S.V.?

A That is the P.S.V.,

Q Then there is the "B" license?

A Yes.

Q The P.S.V., and the P.S.V. plate is issued by the Highway Traffic Board?

A The "B" license is issued by the Provincial Secretary, which controls --

Q To whom is the "B" license issued?

A To the commercial users.

Q To all commercial users?

A Yes.

Q I thought you told us the man who didn't go outside of town except for five miles has the "C" license?

A The "B" is just for the Province of Alberta and not for the cities but the man with the "B" license can operate in the city subject to what restrictions the city puts on him.

Q The man with the "B" license can operate all over the Province of Alberta?

A Yes.

Q But the man with the "C" license is restricted to the city?

A To the city and five miles beyond.

Q And the "C" license is also a restricted license which is given to the farm truck to operate only?

A The "C" license, the "D" license you mean.

Q The "D" license?

H. J. Appleton

A Yes.

Q Then superimposed upon any of those licenses, as I understand it, is the P.S.V. license?

A Yes, that is special for commercial work,

Q Now then, getting down to the problem of Southern Alberta, a farmer living in the Warner district say, and running his truck back and forth to his trading town, would ordinarily have a "D" license?

A Yes.

Q And if he wanted to go down to one of the refineries in Northern Montana to get a load of gasoline for himself, what would he be permitted to do, insofar as any regulations of these trucks are concerned, would he be permitted to go down and pick up that stuff and come back to his own farm?

A On his own "D" license.

Q Now that is clear?

A Yes.

Q Now if he is going down to pick up a load of gasoline and to sell it to somebody or to turn over to some dealer, then I gather from you that he should not be permitted, he should not use his "D" license truck?

A That is right, he should not be permitted.

Q He then should have, I want to get to it gradually, he should have superimposed on his "D" license, a P.S.V. License?

A Yes.

Q Then the P.S.V. people would gauge the capacity of his truck and issue a license accordingly?

A Yes.

MR. FRAWLEY: I wonder if there is anything else, while we are trying to clear this question up?

THE CHAIRMAN: Mr. Harvie may have some questions?

Q MR. HARVIE: Have you any idea, Mr. Appleton, as to what the extent of the misuse would be?

A That is hard to say. As soon as cases of that kind arise they are reported to the police and whatever action the police takes we are notified of it. There have been a number of prosecutions but how many I cannot say, not offhand.

Q Is it an easy thing to check?

A It can be obtained from Edmonton.

Q No, what I meant, is it easy for the police?

A No, it is very hard to check.

Q So it might be quite extensive without anyone knowing about it?

A Oh, yes, quite easy. As a matter of fact, I think it is myself.

Q You think it is?

A Yes, I think it is.

Q MR. FRAWLEY: The difficulty as I see it, if the police were instructed to check up on this sort of thing and a man were coming in from Montana with a load of drums with a "C" license and he told the policeman --

A Not a "C" license, the "C" license would not be allowed on that.

Q A "D" license I meant?

A A "D" license.

Q Then he would tell the policeman, I suppose, 100 time out of

100 that he was taking it to his farm?

A Yes.

Q And whether or not he was, that constitutes the violation?

A Yes.

THE CHAIRMAN: Any questions, Mr. Nolan?

MR. NOLAN: No.

THE CHAIRMAN: All right, Mr. Miller.

ALFRED HERBERT MILLER, having been recalled, examined by Mr. Harvie said:

Q MR. HARVIE: Mr. Miller, you were asked some questions about importing gasoline refined from Turner Valley crude into the Eastern Manitoba market?

A Yes.

Q I believe you have some further statement to make with respect to that?

A The matter we were discussing before lunch, I checked that with our refineries at noon and I find the position was this, for 1938 we were short 120,000 barrels of refined products in Western Canada; at that time so far as Calgary is concerned or Alberta is concerned the Imperial Oil was processing for us, they advised us they could not supply the additional requirements, that meant that for the three months we reopened our Coutts refinery at some additional cost and in addition we reopened the Bell refinery at Calgary for about three months; that was to enable us to supply the requirements in Alberta permitting us to back up our supplies out of Moose Jaw

into Manitoba and we supplied Manitoba down as far as Winnipeg with a considerable product at that time; this spring, due to the fact that our transportation is a summer transportation to our terminals at Fort William and being short we made further shipments from our Moose Jaw refinery down to Manitoba but within the boundary of the city of Winnipeg. I now learn that we are back to the economic line as Mr. Woolley, our witness, expressed on Exhibit "165" before this Commission. In other words, it is a matter of, as I said this morning, of taking care of various contingencies as they arise, even sometimes, even although it is uneconomical, we have to do what we do not want to do.

Q MR. HARVIE: So as a matter of fact, the economic line still exists as shown on Exhibit "165"?

A Quite right.

Q And any variation of these shipments was just to meet a local situation?

A Yes.

THE CHAIRMAN: Would you mind refreshing our memories as to where that is shown on Exhibit "165"?

MR. HARVIE: Yes, it is this blue line.

THE CHAIRMAN: Running through where?

MR. HARVIE: Oh, about at Portage la Prairie and you will remember there was this area that the Illinois situation affected.

(At this stage the hearing was adjourned to be resumed at 10.30 A. M. July 6th, 1939)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 6th, 1939

VOLUME 95

I N D E X

Page

VOLUME 95 - July 6th, 1939

WITNESS:

Dr. John W. Frey, Sworn..................10,744

E X H I B I T S

EXHIBIT 457

Memorandum in reference to the
cost of production of crude
oil by the witness Dr. Frey 10,748

EXHIBIT 458

Report on the Cost of producing
Crude Petroleum, information with
reference to the approximate
average cost of crude petroleum
at wells and estimated recover-
able reserves in the United States
issued by the United States
Department of the Interior,
Washington, 1936........................10,7~~8~~52

MR. MACLEOD: My Lord and Mr. Commissioner, may I make a statement before you begin the evidence. I was unable to be here yesterday and I notice that Page 10,709 of the evidence, during the evidence of Mr. Appleton --

THE CHAIRMAN: What page?

MR. MACLEOD: Page 10,709 during the reception of the evidence of Mr. Appleton my learned friend, the Commission Counsel, undertook to give some evidence of his own, which I think is quite objectionable. At the bottom of that page in a discussion in connection with dumping duties Mr. Frawley said this:

"I think the Alberta Petroleum Association has done
"something of that kind"

that is on the question of the enforcement of the dumping duty.

"and they have made representations. I do not
"know what the major oil companies have done about
"that , that are selling gasoline in this Province,
"and the biggest violator of the anti-dumping laws,
"if there is a violation, is the Texas Company."

And nothing further was said in that connection, no qualification of any kind and later on at Page 10,710 Mr. Frawley seems to follow it up rather indefinitely, follow up the same line where he says,

"To see there is no violation of the anti-dumping
"Clauses. The Texas Company are bringing in
"thousands of gallons every day."

That is more or less indefinite but the statement on the preceding page is a definite statement that if there is

any violation of the anti-dumping or the dumping clauses of the tariff, that the Texas Company is the chief offender, the biggest buyer. Now I presume Your Lordship has before you what the dumping duty is but may I read a reference from Heaton's Handbook under "dumping duty";

> "On imported articles of a class or kind made or
> "produced in Canada, whether otherwise dutiable
> "or not, of which (a) the export or actual selling
> "price to an importer in Canada is less than (b) the
> "fair market value when sold for home consumption
> "in the usual and ordinary course in the country
> "whence exported, or than such fair market value,
> "or value for duty as may have been determined or
> " fixed under the Customs Act, a dumping or special
> "duty shall be levied in addition to the duties
> "otherwise established, equal to the difference
> "between (a) and (b) and such special or dumping
> "duty shall be paid, although it is not otherwise
> "dutiable."

Now, what I would point out --

THE CHAIRMAN: What text-book is that, I am not familiar with it?

MR. MACLEOD: It is Heaton's Handbook, 1939, it is just a resume.

THE CHAIRMAN: And the page in the Handbook is?

MR. MACLEOD: Page 564.

THE CHAIRMAN: And the section of the Act referred to?

MR. MACLEOD: It does not refer to the section, My Lord, but what I want to point out, My Lord,

is this, my client's witnesses have given very elaborate evidence that there has been a duty placed on the products which they import, by the Customs officials under this second alternative (b) which does not exceed, which is the price they pay and therefore, they are not liable to dumping duties and it is quite erroneous on the evidence as it now stands, - whatever evidence my learned friend may put in to rebutt that, - it is quite erroneous to say that they are violators of the dumping laws.

MR. FRAWLEY: Well, Mr. Commissioner, I certainly want to withdraw any false statement I made with regard to the Texas Company but I cannot, in reading all the evidence yesterday, or if one were present at the discussion when Mr. Appleton was on the stand, one could not conclude that I had found the Texas Company in my own mind even, guilty of any violation of this Dominion Statute because not only did I make the statement of which my friend complains at Page 10,709:

"I think the Alberta Petroleum Association has "done something of that kind and they have made "representations. I do not know what the major "oil companies have done about that, that are "selling gasoline in this Province, and the "biggest violator of the anti-dumping laws, if "there is a violation, is the Texas Company."

But then Mr. Commissioner Lipsett himself said,

"That may not be the case. They may be taking "it in at the full price.", and then I answered, "They are certainly selling it at the full price "and I cannot get that out of my head, that is "important."

And I think at some other time I elaborated upon that, simply indicating that the Texas Company, even if they were bringing in cheap gasoline into this Province were, as I think somebody has called it, a legitimate competitor of the other major companies because they were maintaining the other major companies' tank wagon prices but I said, and this is what I want to call to the Commission's attention, at Page 10,711, speaking about this particular matter;

> "It is in a very bad state of misinformation at
> "the moment, as far as this Commission is
> "concerned. It has to be straightened out. I
> "thought I would be making some progress by
> "asking the Customs brokers."

And at Page 10,712 I said,

> "I am not taking any position about it. It has
> "to be explored. It is in a very bad state at
> "the moment as far as being clear to the
> "Commission."

And then I said at Page, which seems to settle it, that the Texas Company, yes, at Page 10,710 I made reference to endeavoring to have made available to me through Messrs. Allan & Johnston, the Texas Company's brokers, I said:

> "They should have some knowledge about that.
> "It is the crux of it. The Dominion Government's
> "job is to see there is no anti-dumping ---'

And then the Chairman said:

> "To see there is no dumping."

And then I continued:

"To see there is no violation of the anti-dumping "clauses. The Texas Company are bringing in "thousands of gallons every day. Now, it is not "to be supposed ---"

and what I was talking about there, that the Texas Company would be violating this Dominion Statute under the very eyes of the Customs people when they were bringing in thousands of gallons every day. This should disabuse my friend's mind of any feeling on my part that I was accusing this company of any dumping violation. I said it should be explored and I will do everything I can to bring the Dominion officials here, or Customs Brokers and also Mr. Appleton, bring him back if necessary, to inform the Commission fully about this anti-dumping of which I say there is a particularly confused state of affairs now in the evidence.

MR. MACLEOD: Mr. Frawley does not say what is not to be supposed, he stops there but he does make the positive statment before that we are the chief violators.

MR. FRAWLEY: You will remember, Mr. Chairman, I said it would be passing strange if that much gasoline could come in, - I cannot find it at the moment but I think you will find it, and that you answered me in the same expression rather to the contrary of my view. However, I simply call that to your attention that I said yesterday that it would be a strange thing if anybody as big as the Texas Company was openly violating these laws.

THE CHAIRMAN: I think you can take it quite for granted, Mr. Macleod, that this Commission does not accept those statements of any Counsel as evidence. As to what is the proper interpretation of the evidence, it seems to me, that we need not take time to enter upon that because Mr. Frawley has made it clear that he has no desire to charge your principals with being guilty of a breach of the anti-dumping laws and certainly not until such time as the matter has been fully explored, with which you will of course, be quite content, believing as you do that no such state of affairs exists but I just want to say, apropos of that, that we have had some discussion, as you know, as to how far disclosure will be made by your principals as to what is going on on the other side of the line in connection with the refinery and the intervening Company, the Delaware Company, and it may not be amiss to say, it just strikes me that the discussion this morning lends force to what we have said, that it is all important that there be full and complete disclosure, and I hope, as I have already intimated to Counsel, that in some way that will be brought about and then questions cannot arise. The facts are known, and I am sure Mr. Frawley would be the last to make charges that he was not prepared to substantiate and we are willing to accept his word, and we hope you are, that whatever interpretation may be put upon what he said, that it was not his true intention to in any way vilify your company, your principals. What progress is being made with respect to the matter of disclosure by the Texas Company's

costs and the like? Are Counsel prepared to speak now or is it still a matter of discussion between Counsel.

MR. FRAWLEY: Yes, as a matter of fact it would not be very opportune to make any statement about it now. I have been dealing with Mr. Nolan and Mr. Harvie and the last word has not been received from them nor from Mr. Macleod's client but I expect within a very short time, and I hope before Dr. Frey has to go back to Washington, to know just where we stand.

THE CHAIRMAN: Well, I need only say, it seems to us important and I hope all Counsel will bear it in mind, to have the complete picture and it seems to me too bad if we are not to have it because of difficulties arising over the existence of the international line, a difficulty which could not arise with respect to all the other major oil companies in Canada and I hope some way will be, that in some fashion, Counsel can surmount that difficulty so that we, as a Commission, and these experts who are independent advisers of the Commission may have access to the complete picture. All right, Mr. Frawley;

MR. FRAWLEY: Thank You. I have asked the British American Oil Company to be good enough to allow me to interrupt their presentation, so that the Commission might have a statement from Dr. Frey on the cost of production of crude oil and Dr. Frey is now to make that statement. Dr. Frey.

THE CHAIRMAN: Mr. Frawley, have you taken

occasion to notify the officials of the Producer's Association?

MR. FRAWLEY: Yes.

THE CHAIRMAN: That Dr. Frey is speaking this morning?

MR. FRAWLEY: Yes, I did, Mr. Chairman, I communicated with Mr. Kolb and asked him to communicate with some of his members and I saw Mr. Plotkins on the street and he was good enough to say, not only that he would be here himself but that he would notify a group of people to come and I see some of the producers here this morning. Mr. Plotkins tells me that the people he tried to get were not in town. I do not know whether Mr. Kolb is here or not, yes, Mr. Kolb is here.

THE CHAIRMAN: It seems to me that this subject is one which should be of great interest to the producers and I am anxious that they should hear Dr. Frey so that if they, the producers, who are mostly concerned with the cost of production have anything to put before us they may have full opportunity of doing so. We feel we have had too meagre evidence as yet which will assist us in expressing a considered opinion upon even the average cost of production.

MR. FRAWLEY: Yes, Mr. Chairman. Well, I agree with what you, Mr. Chairman, have just said, that it is important to the producers and I think that those who are not here are not here because they cannot be but it will be at least available to them, the transcript.

THE CHAIRMAN: Yes.

DOCTOR JOHN W. FREY, having been first duly sworn, examined by Mr. Frawley, said:

Q Dr. Frey, you live where?

A Washington, D. C.

Q And what is your business, what is your occupation perhaps I might say?

A I am Associate Director of the Petroleum Conservation Division, office of the Secretary of the Interior.

Q In the United States Government?

A Yes.

THE CHAIRMAN: Associate Director?

Q MR. FRAWLEY: Associate Director of the --

A Petroleum Conservation Division, office of the Secretary of the Interior. Of course that is in the Department of the Interior.

Q And before giving your evidence, Dr. Frey, I would like you to put on the record your qualifications, academic and otherwise?

A I suppose it is difficult to go back to antecedent days of the university in the matter of education, so I will start there. I entered the University of Chicago in 1909 and at the end of my freshman year dropped out of the university and went into general merchandising, at which I was engaged for six years; I went back to the university, took another year and a fraction and then entered the army for a year. I went back to the university a third time and in 1919 took the degree of Bachelor of Science in geology and geography; following that I taught a year in High School; was then invited to become a member of the faculty of the University of Wisconsin; in

Dr. J. W. Frey

1922 and 1923 I was a student at the London School of Economics in London, England; in 1926 I received the degree of Bachelor of Philosophy in geography, economics and world politics; in 1925-26 I was secretary of a Round Table at the Institute of Politics, Williamstown, Massachusetts, on minerals in their political and economic world relation; in 1928 the Department of Commerce, United States Department of Commerce, asked me to become Chief of the Petroleum section of the Burea of Foreign and Domestic Commerce, so I dropped out of the university at that time and for the next five years occupied that position; with the coming of the Code, an incident of the N.I.R.A., National Industrial Recovery Act, I became the adviser on marketing and then when the Code came into existence, the Secretary of the Interior, who became the administrator of the Code, asked me to become a member of the Petroleum Administrative Board in charge of marketing. I occupied that position until the close of the Code period when the organization with which I am now associated came into being and I was made Associate Director, a position which I now occupy.

Q When did you undertake to act as a consultant to me in the work of this Commission, Dr. Frey?
A The Department of Interior agreed with our Department of State that I could undertake this responsibility with you on the 24th of----
Q May?
A May I think it was.
Q Yes. Prior to the 24th of May negotiations were pending between the two Governments with respect to your availability?
A Yes. The request came to the Department of Interior from the Department of State, as a result of a request of the Canadian legation in consequence of a request from the Canadian Government.
Q Yes, and in the result you were granted a furlough from your own department?
A Yes. It was necessary that I take a furlough because I could not be employed by two Governments at the same time.
Q And you are now not under salary from the United States Government?
A That is correct. I will not be under salary until next Monday.
Q Until next Monday. And during the time which you have been out of salary from the United States Government, that salary has been paid by the Alberta Government?
A Yes, Sir.
Q And so as to be very clear about it, just that salary plus two or three dollars more to make round figures out of it?
A That is right.
Q And a subsistence allowance per diem?
A That is correct.

Q Mr. Nolan makes a good suggestion. As associate director of the Petroleum Conservation Division, what are your duties, Dr. Frey?

A The Petroleum Conservation Division is the administrative office created by an executive order, that is an order of the President, at the request of the Secretary of Interior, to assist the Secretary of the Interior in the enforcement of the so-called Connelly Law, sometimes referred to as the "hot oil law", a law which prohibits the transportation in interstate Commerce of oil that has been produced or the products of which, in violation of State law. In addition to that duty we are the economic advisors of the Secretary of the Interior on petroleum matters and we are also co-ordinators of the various activities of the Department of the Interior as they affect oil. We have three agencies aside from ours that have problems in oil. The United States Geological Survey, especially through its Conservation Branch, which is the regulator of production on Federal land; the Indian office, which takes care of the welfare of the Indians' rights as they may be affected by oil; and the United States Bureau of Mines, which is a fact-finding agency in both economic and technical matters. We assist the Secretary in co-ordinating the activities of those agencies.

Q Now, then, Dr. Frey, you have been requested by me----by the way, let me introduce that by stating to you that the Commission under which these Commissioners here are functioning declares to be a matter of public concern and a subject of inquiry here among other things the production, refining, transportation and marketing of petroleum and petroleum

products in the Province of Alberta, and the cost and prices thereof, and the programme of inquiry which has been made from the Commission sets down as one of the subjects of inquiry the cost of production. Determination of the cost and to that end inquiry into the factors which are now and/or which ought to be taken into account in determining cost. That is all as distinguished from field price. You have at my request prepared a statement to be submitted to the Commission dealing with the question of cost of production, both general and in Turner Valley?

A Yes, Sir.

Q And that statement has been committed to writing?

A Yes, Sir.

THE CHAIRMAN: The cost of production of crude oil?

MR. FRAWLEY: The cost of production of crude oil. That is so, is it not?

A Yes, Sir. The problems involved in the determination of the cost of production of crude oil.

Q I would suggest that the memorandum be marked as an Exhibit and that it will be available to the Commission.

(DR. FREY'S MEMORANDUM IS NOW MARKED EXHIBIT "457".)

Q Very well, Dr. Frey, would you make your statement?

A Your Lordship, I would like to state that I have not had an opportunity of re-reading this after it was written and there may be minor errors that will have to be corrected as I go along.

THE CHAIRMAN: Yes.

A As to the manner in which you question me on it, I shall leave that entirely to you, because it won't bother me if

you stop me anywhere. On the other hand, it is entirely possible that some of the questions that you may ask are dealt with later. So I just want to make it clear I won't be bothered by breaking the continuity.

Q Unless there is some very good reason for stopping you we will hear it all first and question you afterwards.

A Thank you.

In the history of economic theories it is doubtful whether any subjects have received more attention than value and price and numerous economists have at one time or another advanced the idea of the cost theory of price. So common is the association of the fair price being determined by cost that in common parlance it is often assumed that price must be a result of cost in spite of the fact that almost every industry has had some experience in operating at a loss. In appearing before this Commission it is my object to point out that even were it possible to determine the cost of producing crude petroleum, and that could be done if one were willing to accept enough arbitrary allocations of various items, nevertheless/the field price of petroleum and the cost arrived at do not necessarily have any correlation at any given moment/and furthermore it may be questioned even in the long run that the amount of money received for the production in an oil field equals the expenditure in that field.

A study of oil fields reveals that there have been many that have not payed out and that thousands of dry holes have been drilled by persons who have not been in a position to influence prices by development costs--in other words, drilling dry holes, not uncommon in wild catting, has

dissipated the funds and bankrupt the company, which of course means all development cost and no production against which to charge it. The extent to which unproductive development costs are a factor in oil field development is indicated in the United States Bureau of Mines Minerals Yearbook, 1937, page 1000, under the heading (oil) wells, I quote:

> "Of continued interest was the decrease in the ratio of failures. Although the number of dry holes increased from 4,911 in 1934 to 5,296 in 1936, the percentage of total completion declined from 23 percent in 1935 to 21 percent in 1936. The ratio was the lowest in 20 years."

Although thousands of dry holes are drilled that cannot be charged against the cost of producing crude oil it does not follow that there is no relationship between the price of crude oil and the drilling of dry holes because discovery is the result not only of the degree of activity in drilling but also the quality of technology back of the effort. These factors are variable and seem to be influenced by the price of petroleum. To be specific, if the price of crude oil advances materially the chances of a higher reward--that is price--tends not only to stimulate drilling but also to the taking of greater risks.

If the intensity of the search for oil and the quantitative result were closely geared there would be no question about future reserves, for were such correlation a fact, price stimulation would produce the required effort and result, but unfortunately oil fields are hidden, elusive

and to personify, quite individualistic in physical characteristics.

The fact that the development of each oil field is a problem, that is to say, the physical conditions of each oil field must be given consideration as a producing unit, makes it difficult to generalize concerning the cost of production even in such an ordinary consideration as out of pocket costs for these costs must change during the life of the field and are commonly progressively upward as higher percentages of the reserve are produced.

However before I go into the problem of the variables in making cost of production studies I want to add another observation concerning discovery as related to price, namely, that while there is at any moment little or no relationship between the costs involved in producing and the field price, that in the long run the cost of replacing the produced oil by new discoveries should have a strong effect upon the price of crude oil. I have used the words "should have" advisedly, because there is no present assurance - and I might add, no indication - that they will.

I now propose to state a conclusion and then to follow it with a discussion that will indicate how I have come to this conclusion. In 1935 the Petroleum Administrative Board of the United States Department of the Interior, of which I was a member, published a report on the cost of producing crude petroleum.

MR. FRAWLEY: May I interrupt you there, Dr. Frey. Is this the report?

A Yes, Sir.

Q I would like to file that.

(REPORT IN QUESTION IS NOW MARKED EXHIBIT "458".)

MR. FRAWLEY: The witness is producing a publication of the United States Department of the Interior. It is a publication of the United States Government Printing Office, Washington, 1936. It is entitled "United States Department of the Interior, Harold L. Ickes, Secretary. Report on the Cost of Producing Crude Petroleum. Information with Rreference to the Approximate Average Cost of Crude Petroleum at Wells and Estimated Recoverable Reserves in the United States," and on the fly-leaf: "United States Department of the Interior, Harold L. Ickes, Secretary. Petroleum Administrative Board."

Q You spoke of the Petroleum Conservation Division?

A Yes, Sir.

Q Did one body succeed the other?

A Not entirely. The Petroleum Administrative Board was larger than indicated, that is, was larger originally than indicated on the fly-leaf, but as the problem after the extinction of the code by the Supreme Court action made it necessary to afford only a small number to complete its reports, the Board was somewhat reduced. That is, all of those people even mentioned here were not taken over by the agency with which I am now associated.

Q You were a member of the Petroleum Administrative Board, which made this report?

A Yes, Sir.

Q And you are now a member, as you have told us, of the Petroleum Conservation Division?

A Yes, Sir.

Q And Mr. Holland and Mr. Swanson, who were also with you members of the Petroleum Administrative Board are now members of the Petroleum Conservation Division?

A Yes, Sir;

Q In fact, the Petroleum Conservation Division is composed of Mr. Holland, yourself and Mr. Swanson?

A Yes, Sir.

Q MR. COMMISSIONER LIPSETT: I see, Dr. Frey, on page 3 of your report, that your Department sent out a form of questionnaire?

A Yes.

Q To all producers?

A Yes, Sir. The questionnaire is described----

Q On page 3 I think?

A You will find form of cost questionnaire used on page 3 and 4, the scope of the investigation and the area covered on page 5, and a classification of the schedules tabulated there, and on 6 the cost by areas and then various other discussions from there on back. I shall list some of these statements from this publication without giving credit to the publication and I feel that that is not unethical in view of the fact that I was responsible in part for the contribution. I cite the language without credit to myself in some instances.

Q Would a questionnaire on somewhat similar lines, do you think, be of any assistance to us, if it was sent out to the producers in this Province?

A I do not think it would.

Q THE CHAIRMAN: I suppose you discuss on that?

A I discuss on that, yes, Sir.

Q All right.

Dr. J. W. Frey.

A I stated at the beginning of that paragraph I was going to state a conclusion, that since, the fact that I was associated with that report, which is the one which you have just received, might lead one to believe that I would recommend to you similar procedure to that which we used. However, instead of recommending such action to you I recommend the opposite, namely, that you do not attempt to use the methods employed in making the report used by the Petroleum Administrative Board. It is my judgment that the method employed by the Petroleum Administrative Board is of no great value in determining the reasonableness at any given moment of individual field prices of petroleum in the United States although the composite result is strongly suggestive of the prices necessary to produce various percentages of the reserves and valuable as an index of operating costs.

I think it might be as well to add at this point what Mr. Frawley has already read to you, namely, the information with reference to the approximate average cost of crude petroleum at wells, because I want to keep that approximate idea to the forefront all the way through.

It is my opinion that with as little history and as few wells as exist in the Turner Valley oil field that a cost of production study would be too inaccurate to be of any real value to anyone except for historical purposes or as the basis for future comparisons of changes in operating costs.

I shall first discuss how the report of the cost of crude oil happened to be made. Under the National Industry Recovery Act, approved in June, 1933, and

terminated by the often joked about chicken case as a result of a decision of the United States Supreme Court in May, 1935, the oil industry had a code of fair competition in which a minimum price schedule on petroleum products could have been approved pending the determination of the cost of crude petroleum and its products.

I think I had better interject that the Code of Fair Competition came into existence in August, 1933, and, of course, was abandoned immediately after the Supreme Court decision, May 27th, 1935.

Although certain elements in the industry strongly urged price fixing for more than a year, nevertheless, no prices were fixed. However, in order to be prepared for any eventualities the Administrator of the code, the Secretary of the Interior, ordered a study to be made of the cost of producing crude oil.

The first limitation placed on the study was that no producer with less than five thousand barrels of production a year east of the Mississippi River and in the States of Montana, Wyoming and Colorado, or less than 10,000 anywhere else in the country should be required to supply cost schedules. This was, of course, arbitrary but not unreasonable as there were certain compensating factors.

As a similar study had been made by the United States Federal Tariff Commission for the years 1927 to 1930 it was decided to follow the pattern used by that agency in order to secure comparable results--so many of the inherent arbitrary methods used by the Board were the consequence of consistency.

The sample was very large and the report for the 1931-33 period covers the operations of 1,183 producers or 644 million barrels in 1931, that would be 75.72% of total United States production, 785 million barrels in 1932, or 76.16% of the total, and 653 million barrels in 1933 or 72.16% of the total. This large sample with its diversity in size, age of fields, depths, production methods, company policies as well as statistical imperfections and arbitrary allocations of costs does much to average out results and make them plausible. In this connection it should also be noted that over half of the wells in the United States were covered in the 1931-33 period or about 166,000 for each year. This fact also helps out in making averages mean something.

Right here I should like to digress to point out that an average is a statistical fact which carries with it no implication of the range, so if one states that the average cost is 85 cents per barrel there remains the question of how many producers are above and how many wells are below, that is: and if one says that a reasonable field price should be determined by the cost of the production then as a matter of logic one faces the question why select average rather than the high or the low? Obviously the difference in costs is related to potential profits.

Putting this in the language of the oil men every driller hopes to be more successful than his competitor in striking the lowest cost producer in the field. He is looking for the best possible deal on a

lease, for the lowest out of pocket drilling costs, for the most oil per acre and the smallest out of pocket operating costs so that whatever the price of oil he will be in the more strategic position.

Now to go on with the report. As the ownership of the oil produced may be divided between those who assume no risks and incur no expenses in development and production and those who assume the risks and expenses several approaches are possible to the allocation of expense to production. Generally the profit to the non-risk taker is in the form of a royalty which is ordinarily a fraction of about 1/8 throughout the life of the field although additional royalties overriding the lease sometimes exceed 50 percent of the production, but overriding royalties ordinarily decrease with natural decline in production. The Board found that one method was to base the calculation on the quantity which the company received, that is the net production after royalty deductions; the other method was to base the calculation on the gross quantity produced and to the expenses incurred by the producing company and as an item of cost the value of that proportion of the production which is given as royalty. There is something to be said for and against each method but since the second involved the question of price to set up the values, after all when you are trying to arrive at a value and you use a price to determine the value, you are in a kind of circular reasoning but we were not quite so much concerned about the logical economics there as we were about the difficulty of making an allocation, so that the second method was abandoned arbitrarily in favor of the simpler method of

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charging costs only against company owned productions in spite of the fact that royalty oil amounted to more than 80 million barrels per year, 1931-33 period, and I am talking about retail companies, valued at from $55 to $82 million a year.

In any oil field there are many factors that have a bearing upon production costs. The ultimate yield from an individual well or lease materially affects any cost comparison and many estimates of ultimate yield that have been carefully calculated have proved inaccurate. In certain instances experience in the handling of a field has revealed the early mistakes in operating methods and has changed concepts concerning underground conditions. Where oil is produced from sand the early calculation concerning porosity and permiability are generally more dependable than those made in limestone fields, of course, bearing in mind that there are great differences in limestone and each new horizon may or may not have reference features with older fields of the same general type on which there is a good historical record. It cannot be over-emphasized that production methods are highly significant in ultimate recovery. For example, the East Texas oil field discovered late in 1930 was not brought under production control until 1934 by which time the outline of the field, the thickness of sand, the porosity, the permeability, the displacement by water drive, the ratio of gas to oil and the effect of gas release upon viscosity were just about as well known then as they are today, but under uncontrolled production up to late 1934 the ultimate yield was calculated at about 2 billion bar-

rels; today under controlled production, the ultimate yield is generally calculated at about 4 billion barrels.

As the important problem in currently amortizing the cost of a property is the estimated quantity it will produce, or the useful life of the equipment as measured by the estimated number of production years, it naturally follows that the cost per barrel is affected by any revision of these yield estimates. Because of many kinds of changes it often happens that costs fluctuate widely from time to time. Besides there is almost always considerable difference as between wells and leases as to the degree in which the investment has been amortized. It is consequently important in any cost of production study to have a large sample and a long period in order to compensate for the variables, otherwise a reasonable average will not be obtained.

I have been told that the record of this inquiry contains many conflicting opinions concerning the reserve of Turner Valley and of the ultimate recovery, furthermore that in the estimates made experts have allowed considerable latitude for error in their individual opinions, differences that would amount to 50 percent of the ultimate recovery, and that the difference between the high and low estimates is in the neighborhood of 300 percent. Now regardless of how close any of the experts may be to the correct figure, which only history will prove, it is perfectly clear that all cannot be correct. If this one factor on the calculations of the ultimate recovery were not sufficient to throw doubt on any

method of determining depletion and depreciation rates there still remains the problem of what conditions must be faced in the event the field goes from flow to pump production. In other words, it is not clear at the moment how much of an investment in pumping equipment will be required when the field ceases to flow, neither is it clear what the secondary method of recovery should be, nor whether it will justify the costs. While I have no direct information on the subject, as I am not an engineer, I understand that there is no concensus on the best engineering practice in the matter of returning gas to the structure.

In the calculations of the Petroleum Administrative Board report where company estimates on reserves were not acceptable or adjustable or where the information was not obtainable an arbitrary substitution on depletion, and of course that also applies to depreciation, was made, although the rates are not the same and I will stick to depletion, 5 percent for the operators East of the Mississippi River and 10 percent for all others. I would not recommend this method to you because it must be self-evident that such a method could be justified only as a statistical expedient.

I have already touched on the subject of unproductive expenses and their relation to cost, especially of the pioneering driller who incurs loss of time and money seeking oil unsuccessfully on which no accounting can be made. In addition to that there is the problem of the cost of holding leases which although not applicable to current production is nevertheless an item of cost because incurred necessarily as a

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safeguard for the future. I do not know the answer as to how much land a company should hold under lease but I do submit that the reasonableness of holding leases or of abandoning them without production is a subject that cannot be avoided in the consideration of costs in company operations where small production has to absorb each cost.

In the production of crude petroleum expenses chargeable to the current period fall within two broad classifications -- those which though changing in nature and total from year to year, are costs of actual recovery, and those of a more indefinite nature, which apply to the entire production irrespective of the period in which the oil is produced. The allocation of expenses of the more indefinite nature are for the most part merely estimates. They are at best only calculations of what someone thinks should be applied from time to time -- that is during current periods -- toward amortizing the cost of the property and development. Of course the quantity produced in any period is a ratio to the ultimate recovery and it hardly need be pointed out that this is not necessarily a flat or even a straight line curve.

The costs of the more indefinite nature are those related to the capital permanently invested and chargeable in part to current periods and may be classified as depletion, depreciation and intangible development cost. To distinguish between these charges; depletion is that part of the cost of equipment which deteriorates during current periods, there is a mistake here.

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Q MR. FRAWLEY: would you like me to get your original notes?

A I would take it out of here, it is largely a definition.

Q Here are your original notes?

A I have condensed the definition which we have used and I will use my own now. Depletion is that part of the cost of a lease considered in connection with that operation----

Q THE CHAIRMAN: You are making a change, are you?

A Yes.

Q MR. FRAWLEY: On the bottom of page 9, Mr. Chairman?

A Dealing with the word "depletion". Depletion is that part of the cost of a lease considered in connection with that proportion of the estimated recoverable reserve which comes into possession of the company, of course I have not said operating company, but that is what I mean and I will have to go on and correct a couple of more lines. Depletion is that part of the cost of equipment which deteriorates during current periods, and then I think I am back into the statement.

Q THE CHAIRMAN: That part of the cost?

A Is that part of the cost of equipment which deteriorates during current periods. Amortization, and I think we are now at the top of page 10----

Q THE CHAIRMAN: Yes?

Amortization of intangible development cost involves the inclusion in capital costs of the expense incurred in drilling producing wells, in other words writing expense into current periods such

items of development as labor, trucking, etc. That some companies handled intangible development costs as current expense made it necessary to adjust company reports to place these costs in the category of capital investment.

Part of the difficulty in handling these costs of indefinite nature is due to conditions that have already been mentioned but in addition there are two other assumptions that defy analysis on anything but a broad gauge basis, they are (1) the uncertainty concerning the production of any given well under any effective type of production control and (2) the percentage of reserve that is likely to be brought out at different price levels. If one considers a large area, a large number of wells, a wide variety of physical conditions, and a considerable diversity in the commercial set-up of the producing companies it is possible to assume with some degree of safety that conditions on an average may remain in fairly constant or at least relatively free from rapid change, but the smaller the sample in respect to these conditions just enumerated the less likely true are conclusions concerning the future. However, in any single field the physical conditions may be such as to cause costs to rise out of all proportion to possible prices.

Making a statement of what I have described, anyone making a study of the Petroleum Administrative Board report must recognize that many arbitrary decisions had to be made and that complete agreement as to those decisions could not be hoped for. In a large number of instances arbitraries established by companies were used, in other cases adjustments had to be

made. The larger the area included in the conclusions concerning costs the more likely they are to reflect the average situation.

May I just digress there for a moment, what I mean is this, if you were to take the figures on any one pool, say in the State of Oklahoma, that the error for any one pool is likely to be much greater than the error of taking all of the pools in the State , that is just a simple problem in statistical sampleing, that a small sample is less dependable than a large sample and we find that to use our State is much better than our pool figures and our regional figures are probably much better than our State figures.

On the basis of costs as determined by the survey one can now turn back to a statement I made concerning calculation of reserve in terms of price. The point I am driving at is, even after a calculation is made by the engineers concerning the amount of oil in a field, assuming that all of the engineers are talking in terms of similar magnitude, still that does not answer the question as to the percentage of the reserve that will ultimately be recovered, for that may be unattainable. I shall illustrate this, from the Report. I find that in the Mid-Continent Gulf area, this includes Texas, Oklahoma, Kansas, Arkansas,Louisiana and New Mexico, or about three fourths of the total United States production, the average cost in 1934 was .778¢ or 77 8/10 cents and the average selling price was .96¢. The percentage of oil reported for that area produced:

At less than 40	cents per barrel		2.98%

I think there is another error there, no, it is all right.

At less than 80	cents per barrel		62.86%
" " " 1.00	"	"	80.36%
" " " 1.20	"	"	92.64%
" " " 1.60	"	"	97.88%
" " " 2.00	"	"	99.33%

In each of the areas studied the acceleration of the percentage of oil produced at prices above the average was different.

I think just for your own clarification of this, what I am talking about in acceleration you will find there on page 107 or page 106. I am just now describing what you might call a technical term in the statistics where we talk about the acceleration or the deceleration of a curve and you will notice that the base line is upwards in value and the vertical line is upwards in percentage of reduction, so of course our acceleration is in the direction of the line.

Q THE CHAIRMAN: The witness is referring to page 106 of Exhibit "458"?

A I said in each of the areas studied. You will notice there are a number of areas there, large areas, four I think.

Q MR. FRAWLEY: Yes, four.

A "The acceleration of the percentage of oil produced at prices above the average was different", that is, in other words these curves are not parallel to each other.

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In California about 50 percent was produced above the average .585¢, and in the Eastern fields - that is east of the Mississippi River - a little more than 45 percent was produced at costs over the average, $1.56, In the Rocky Mountains about 45 percent was produced above the average, $1.08, and in the Mid-Continent Gulf about 40 percent was produced above the average. I should add that the low average cost for California was in large part traceable to the Petroleum Administrative Board method of calculation which made about 10 percent of the production of that state cost less than nothing.

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While we have had calculations made on the percentage of oil unrecoverable at progressive price levels in various fields this information has not been published but from the selected data just given, it may be deduced that without consideration for price it is impossible to predetermine the amount of a reserve that will be produced and consequently what arbitraries to apply to the costs. While cost may in the long run be an element in price because of the possibility of periods of shortage, nevertheless, price is always working and consequently is a most important factor in the determination of ultimate production which in turn is a strong factor in cost.

What I have said up to this point is of general application to the problem of determining the cost of production. In addition to these considerations, before a reliable estimate of the cost of production in Turner Valley can be arrived at some of the physical facts that have a very important bearing on the problem and should be determined incident to a cost study are:

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1. Extent of the field:

   a. The outline of the producing horizon.

   b. The water contact line, if any.

   c. The gas and oil contact line.

   d. Any structural conditions, such as faults, that may delimit the field.

   e. Economic conditions that may delimit the field.

2. Volume of oil in cross section.

3. Volume of oil that can be lifted to the surface by gas present in the structure and any other physical conditions, if operative.

4. Effect of release of gas pressure upon ultimate recovery.

5. Volume of oil that will be left in the structure when natural flow ceases.

6. Method of secondary recovery and lifting costs, if a secondary method or methods prove feasible.

7. What will happen in the movement of oil to the wells when the gas pressure is reduced to the point where the gas breaks out of solution.

8. Extent to which the gas cap should be closed in - if at all - should merchantable gas be recovered from the oil producing section of the field. What would be the effect upon ultimate recovery of pumping non-merchantable gas back into the structure.

9. What optimum rate of flow would be most satisfactory from the standpoint of conservation.

10. Likely drilling program not only in Turner Valley but in other possible competing fields.

11. Is the conservation program of the present government likely to become the long range policy.

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12. Would restricted production continue if the market would absorb more oil than the field could produce efficiently.

While I know that I have not exhausted the subject of the cost of producing petroleum I hope I have not fogged the issue and that there is no misunderstanding on the conclusion I referred to at the beginning of this discussion, namely, that while it is possible to determine a cost for the production of crude oil in Turner Valley if enough arbitraries are assumed history might or might not bear out the truth of such a cost because many physical facts concerning the field are either not known at all or are only partially known which adds to the arbitraries that would have to be assumed and after everything was said and done the resulting cost 14
figure would only be a scientific guess the value of which would be of no practical value in the determination of price, for as I have tried to demonstrate production costs by whatever method determined may have little or no effect upon price but economic conditions especially price may be the determining factor in the cost of production.

MR. FRAWLEY: Thank you, Doctor Frey.

THE CHAIRMAN: Any questions, Mr. Frawley?

MR. FRAWLEY: No, I have no questions.

MR. NOLAN: No, thank you.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: I have no questions.

THE CHAIRMAN: Mr. Macleod?

MR. MACLEOD: No, sir.

THE CHAIRMAN: Mr. Plotkins?

MR. PLOTKINS: I have not any at this time.

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THE CHAIRMAN: Any of the producers have any questions to ask?

MR. KOLB: There is one question I would like to ask on behalf of the producers is if we can get a copy of this.

THE CHAIRMAN; I think that can be arranged. Mr. Frawley will see to that. Anyone any questions?

Q Well, Doctor Frey, the net result, for reasons which you have given, is that you feel you are not able to assist us in saying what is the fair cost of production either for the whole or part of the field with which we are concerned?

A Yes, sir. I feel that the field is too new. There are too many unknowns. There are too many economic considerations that are vague; that where we had an opportunity of having a long history and a very large production, and a very large number of wells - you see, we have over 330,000 oil wells and we have a production in excess of 1,000,000,000 barrels a year. We have oil fields still operating that were brought in the 1860's. We have some that are as new as this morning. With all of those factors to off-set each other, with old companies and new companies, large companies and small companies, and with every variety of statistical information to work towards a fair average, the most we are willing to say is, the result of our work is that it is an approximate average cost. We do not say it is THE cost, and I do not believe that it is possible for anyone to arrive at anything but A cost, determined upon arbitraries assumed by the individual or the company. There is not such thing as "the cost", until the history of the whole thing is run and we get a tabulation.

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Q Having regard to all the arbitraries assumed by you, the greater area and the greater volume with which you had to work, for the purposes of your department you did come to a conclusion in the United States?

A Yes, we did.

Q Bearing in mind what you have said that that body did not hope that it would be mathematically correct, you did however express an opinion?

A Yes, sir.

Q What was the opinion?

A On the average cost?

Q Yes?

A It is all through here, as a matter of fact. But the average cost for the United States - it will just take me a minute to find it, if you will allow me.

Q Yes, please?

Q MR.FRAWLEY: Page 10 perhaps?

A In 1931?

Q What page?

A Page 6, Table 1. Crude petroleum. Average cost per barrel (company interest oil) at wells and sales value, by groups of States, 1931-34. The value, all groups, average net cost including interest for all groups, 89-4/10¢ for 1931.

Q THE CHAIRMAN: Per barrel?

A Per barrel. 80.8¢ per barrel for 1932. From January 1 to September 30, 1933, all groups, 69.9¢. October 1 to December 31, 1933, 77.2¢. 1933 combined, 71.7¢. 1934, 77.5¢. The entire period, 1931 to 1934, all groups, 79.8¢.

Q Did you have occasion to make recommendation as to a minimum price for crude oil?

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A That was one of the things that we were on the spot in. There was a great deal of pressure to make us fix a price for crude, but all of us in the organization have been experienced enough to know the difficulties and the dangers and the terrific problem of allocating prices, field by field; position by position; and gravity by gravity. It involved hundreds of thousands of calaulations, and we just shied of it. I do not want to say too much about it, but at least we succeeded in avoiding it. They still want it in certain parts of the country, and for that reason I do not feel that I should for diplomatic reasons say just what we did, and what our moves were, but we did succeed in avoiding price fixing.

Q Now, we have a situation in Turner Valley in which people invest money. Is the nearest to which one can get as to whether or not there is any likelihood of a return to first determine whether or not you have an operating well, and then determine what the cost of operating is?

A You can easily determine out-of-pocket cost. That is the easiest thing to do in the matter of calculation. But costs of an indefinite nature, which have to be projected over the entire life of the producing well, are extremely difficult. Of course in practice a driller of a well will try to get his costs out of it as quickly as he can, and he may short on dividends or may do various other things in order to get his costs out before they begin to worry him.

Q Yes?

A But that does not change the fact that as an accounting method based on any reasonable business operation in which there is expected continuity, that one cannot avoid the

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indefinite item. They must be considered.

Q Well, on what basis is money advanced for drilling by bankers in the United States, if at all? Surely there must be some approach to this, that people may know whether it is insane to invest in oil wells or not?

A First of all, I would say that you have a very different condition here than in the United States in the matter of money that is available for investing in oil wells. I do not know as a matter of personal experience, and I have not seen any records, to disclose how much it costs to drill a well here. But I have been told by any number of people - believed by me to be competent - that it costs something in the neighborhood of $150,000.00 to drill a well. Probably some cost more, I do not know whether any cost less or not. That is just a round figure that someone gave me. Now, the average cost of drilling a well in the United States is $22,000.00, and in East Texas one can drill a well easily and equip it for pumping for $15,000.00. There are plenty of wells in the United States that have cost in the neighborhood of $5,000.00. In the sense, there is a relationship between the number of dry holes that you have to drill to the possible potential that you develop, it is quite obvious that you are dealing with an entirely different kind of risk at $150,000.00 a shot, than you are at $10,000.00 or $15,000.00 a shot.

Further than that, as an area becomes defined, and it becomes defined by drilling and successes and failures - an area becomes defined. You take East Texas oil fields as an example. I do not want you to think that is the only field that is given any

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study, but it just happens to have been the center of interest since 1930. But in that field we know the outline almost perfectly. There may, here and there, be a finger out into the void. Relatively few wells are now drilled anywhere near the edge, because the edge is known. They know the fairway of the field. You can start in the north end of the field and strike right down the middle of it for a distance of approximately 80 miles and you know with almost 100% accuracy that if you stayed on that fairway that you are not only going to strike an oil well, but you will know how thick the sand is going to be where you strike it. You know the physical conditions that under-lie that thing perfectly. The field has been under development for nine years. As I say, by 1934 we knew most of the physical conditions of that field. It was no longer a wild cat. It has not been a wild cat for several years. It was an area of proven production. Now the fact that we have stuck into that field something like 20,000 more wells since then was largely on a reasonable bet. Now the uncertainty of it was that we did not know from time to time how much oil would be permitted from each well, and that is one of the difficulties that they are running into and why the cost figures of 1931 would be ridiculous today. In 1931, 1932 and 1933, three of the years that we have there under consideration, that field was blowing its head off. We were producing about 1,000,000 barrels a day with the small number of wells that were there then. Well, of course, they were high producers, and they must have amortized the cost of their development when there was no control on them in a relatively few days. Today, the field is down to about

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20 barrels a well per day, slightly less than that, with Sunday and Saturday close-ins on top of it. So that the average well is 17 and a small fraction barrels a day. Well, if you put a 500-barrel well in 1932 against a 17 and a fraction-barrel in 1939, you are dealing with an entirely different kind of situation. That was the thing that they did not know. They did not know how rapid drilling would be, nor did they know that the Texas Railroad Commission would clamp down on that field and hold it to about - I have forgotten the exact figure - but to about 340,000 I think it is, or thereabout, a day. They did not know that, but it has happened, and those people who did not get in there early enough when things were wide open have had a different amortizing problem than those who were in there in 1931 and 1932 and 1933. The boys got rich in 1931, 1932 and 1933. So they must consider it in the light of a very conservative investment. In some cases, they cannot avoid making the investment, they may have to drill off-sets. They may have capital that they do not want to put into it, but they will have to do it if they want to get anything out of it, unless they can get together and agree on some sort of a unitized plant. Some of them may be forced into it. But otherwise I think it may be safely said today that the Railroad Commission of Texas will probably for a number of years in the future, and may indefinitely, hold that field down to a conservation level, so that the water does not destroy the field, and if they hold it down that these wells may be relied upon to produce somewhere between 17 and 19 barrels a day, and if out of that can be paid the operating costs of the property, and

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amortized over that period, a banker will consider it. But they are now going on with that banker interest a little bit further. Ordinary commercial bankers in the United States have nothing to do with oil wells. Oil well property is handled exclusively by bankers that are oil bankers, that is, they have a strong banking interest. For instance, I have here a little booklet called "Economics of the Petroleum Industry," written by Doctor Pogue, one of the vice-presidents of the Chase National Bank. The Chase National Bank in New York published this in March of this year. There is a type of operation where a banker is interested in the development of oil properties. It makes loans to oil companies. Now, Doctor Pogue is not only a geologist, but he has been an oil economist for 10 or 12 years at least to my knowledge. I note his staff consists of men who are trained along that line. Doctor Pogue does not have to ask an oil man whether the property is worth developing. He forms individual judgments on it. He is an oil man. He is a banker and an oil man. And I can cite many other instances in the United States where a banker is an oil man, if he has oil investments. If he is not an oil man, he had better stay out of it because he will get his fingers burned so quickly that it won't be funny. The connection between the oil industry and the banking industry in the United States is an intimate thing of long experience, learned by the road of trial and error and hard knocks. A banker has to decide when he makes a loan to an oil company that there is thorough justification in his doing it.

Q Doctor Frey, we have been told that in order to keep a sufficient quantity of oil available for the anticipated

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through-put, that a certain number of wells must be drilled during the year. Now, it would seem to me that we should hear about the cost of production because it would appear that if people cannot sell their oil for what it cost to produce it, that there will not be the continuous drilling necessary to keep up the through-put. That would seem to be so?

A Yes. If the price of oil is not at a level that justifies the driller's risk, you could hardly expect the driller to undertake the risk, except with a possibility of higher prices in the future. Drilling has been carried out in the United States during periods of low prices and during periods of high prices. Whenever you see a large amount of drilling during a low-price period, you might come to the conclusion that someone was just financially funny, queer, maybe cracked. But perhaps they are not at all. Perhaps they are looking a few years into the future and realize that the statistical situation is such that they would be justified in spending money now at current low oil prices anticipating that conditions may be different in a few years. Now, oil field development cannot take place over-night. It takes time to project a field, to find out what you have, and also to find out what you do not have. So that continued drilling is absolutely necessary even though you may have more oil that you can possibly use at the moment. In the United States various estimates have been made as to how much oil we have in sight. The most optimistic estimate that I know of is slightly under 20 years. I have seen pessimistic estimates that we have only 15 years. It does not make any difference whether

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there is 15 years, 19 years, or 20 years, there must be a large quantity of oil in sight before one can expect that companies will undertake the risk of creating facilities for refining and distribution. Those things, too, must be amortized, and if an oil field only looks as though it has 5 years or 10 years to go, there is considerable more risk unless there is another source of oil relatively close in availability, a considerable risk to undertake development on short-range possibilities. We have so much money invested in the oil industry in the United States, probably in the neighborhood of $13,000,000,000.00 to $14,000,000,000.00 and we must look ahead always to have 17, 18, 19 or 20 years ahead. For several reasons. So that we may amortize this investment, which is just plain good business, and so that we may produce that oil at such a rate as to avoid waste. If oil must be produced regardless of the method, I mean if you are just faced with a situation that so much oil has to be produced, say, in an emergency such as might occur if we were in war, we would have then very little to say about the rate we might have to take it. But the more we have ahead of us, the more closely we can approximate an optimum rate of flow that will accrue to the interests of the United States government, to the consumers, and to the oil companies. We must see ahead regardless of whether the momentary price justifies drilling or not.

THE CHAIRMAN: Now we will have to rise, but I have in mind, so that you will consider it, the problem that we have to face as Commissioners, We are asked certain things..Now it does strike me that if it is impossible to ascertain or even express an intelligent guess,

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as to the cost of production in Turner Valley, that we are going to have some difficulty in giving answer as to not only what is the cost of production, but what is a fair field price in that locality. Unless it is to be said that there is no such thing; it is what competition drives it up to or drives it down to. I would like to sort of get an approach to this. We do not know the cost of production. Well now, it does seem sensible that people will not go on indefinitely producing something at a greater cost than they can get for it. If they do not go on, the field dies. If the field dies, there is nothing for us to be arguing about. If they do go on, it can only be because at some stage first that they are getting operating costs, out-of-pocket expenses, at least, and the hope of something more. And all of these things have a bearing on the next thing I am enquiring into - and I am not asking you to address yourselves to it now as I understand you will do so - and that is the field price. I confess to great bewilderment and concern as to where we are getting. At any rate, I would like to renew this discussion after lunch.

A Thank you.

(At this stage the Hearing was adjourned until 2:00 p. m.)

2:00 P. M. Session

DOCTOR JOHN W. FREY, having been recalled, exmained by Mr. Frawley, said:

Q Dr. Frey, I have a question here which is framed merely for the purpose of drawing from you some further observations of the kind you were making when we adjourned at noon. If the Turner Valley operator must continue to drill and if he does not know his cost, if they may be greater than the field price or less than it, I am just putting it to you that he does not know with exactitude what his costs are, why does he go on drilling or how can he go on drilling; now does that invite some observations from you?

A Well there certainly would be differences in individual cases, why an operator would continue drilling but one of the things that probably is a very powerful factor is the desire on the part of the company or individual to maintain his, what he calls his place in the picture, under any type of production whether there is an allocation of production by wells or otherwise.

Q THE CHAIRMAN: By what?

A By wells or otherwise.

Q Yes?

A If an operator has to maintain his place, his percentage of the total production, as the production advances he must drill to maintain his relative position in the field. I assume that there is no question involved of offset drilling; in the United States where there are no drilling patterns in certain States, an operator might feel compelled to protect his oil by offset drilling, in which instance, even though he might be operating

even at a loss with respect to his out-of-pocket costs at any given moment, unless he should protect himself from the effect of the off-set he would sacrifice whatever oil might be under his lease and further than that the chances are that the conditions of the lease would be such that he would have no alternative but to off-set; most leases demand that and the operator either complies with the conditions of the lease, which means drilling more wells to off-set those that others have drilled, or sacrifice the lease. Does that answer?

Q Well, perhaps, I can put my question again, he has these certain conditions driving him to continue to do it?

A Yes.

Q But must he know his costs, I put it to you, I am assuming he does not know his costs. If he knows them perhaps it is different, he is proceeding, you might say, intelligently but just assuming he does not know his costs, he just does not know them, why does he not stop and say, "I will not go on, I do not know my costs, I do not know whether I am going to get out of that well in the next year or so, in the next period, whatever period he might want to establish in his mind, I do not know if I am going to get my costs." Now there might be what you call the "oil man's psychology" but is there something that compels him to go on, whether he knows the costs or not?

A Oh, yes, he cannot stop to consider a momentary price or

cost. If the legal conditions of his lease or the possibility of losing his position in a pro-rated field, forces him on; those are compelling factors, in which cost is quite another item, regardless of cost he must go on.

Q And I just want to put my point of view before you, if I were running a little corner grocery store and I was not making, my selling prices did not equal what I had to pay to the wholesaler for my goods, I couldn't go on, the bankruptcy Courts would have me in their toils very soon. Now does that condition not apply, is that a quite improper parallel to suggest, what is there about oil, about the drilling of oil wells, or is there something about the drilling of oil wells which makes it relatively unimportant that the driller does not know his costs?

A Since I spent a good many years in general merchandising I can understand this corner grocer of whom you speak. We tried to know our costs. We could not know them on every individual item, but we could get at the gross return and determine our net operating cost on the whole business and we tried to be conservative of course, to buy what we thought we could sell and to sell at what we thought we could make a profit at and still meet our competition. Now, we could hardly be called a highly speculative venture. In the first place, when I left the business with which I was associated, it had been established 67 years and we had a history of merchandising for that community, knowing more or less the personal mind of most of our customers and the risks that we could take. The oil industry is not

a "corner grocery" at all. It is a highly speculative venture. The man or company that is not willing to venture much with the possibility of ultimate profit is not an oil man type of mind. The oil man must believe in himself, he must believe in his judgment, he must be willing to take a chance, a long chance, he must not be discouraged by failures, he must look ahead to the ultimate future. If he drills 18 wells in a row that are dry holes, he still has his mind on the 19th one which is going to turn out to be a well. It is that highly speculative nature that puts the oil industry in a category very different from any other type of industrial activity with the possible exception of its closely allied speculative operation, mining, especially mining for the metals and particularly the metals, non-ferrous metals. The non-ferrous people must run long chances too. For instance it is reported that the Utah Copper Company put, not just a milion or two, but something in the neighborhood of 40 million dollars into the development of Bingham before they ever got a cent out of it and they could not be positive of just all of the technicalities that they were going to have to solve when they started in to it. A man who is engaged in the mineral industry must be willing to take a long chance and that is the type of mind that you do not find in the ordinary merchandising operations that we know about in most industries. I think it is definitely a type of mind. Some one has described an oil-well driller as a man who produces a hole in the ground with

an optimist on top.

Q Now Dr. Frey there is just one other thing to complete what I have got in my mind. I suppose as a result of what you say, an operator, a driller draws the distinction between getting back his out-of-pocket expenses and repaying himself for his capital investment. I suppose he has to get his out-of-pocket expenses or he can't go on to the second, third, fourth or fifth dry hole?

A If he is a small operator, he must get his out-of-pocket expenses as he goes along. If he is a large operator, he may have other fields that are productive in which the returns from those fields may offset the losses he takes in the immediate development but he is not unmindful of the future possible profits. He is always concerned with his future possible profits. There is another thing about it. If, let us say, he finds he has made an unfortunate investment and there is no possibility apparently of a price that will return to him more than his out-of-pocket costs, well now under the circumstances you might say that he should stop operating in that field because he will never get his return on the investment but since he has got his out-of-pocket costs and maybe with a break in the market he may get a little bit more some time, that he will continue to produce in that field ordinarily in spite of the fact that he is never going to get a return on the investment.

Q That is the point I wanted. That is all I have.

THE CHAIRMAN: Any others?

MR. PILLING: Mr. Chairman, may I?

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THE CHAIRMAN: What is your name?

MR. PILLING: Mr. R. W. Pilling.

Q MR. PILLING: Having in mind a comparatively new country such as Western Canada and carefully considering all the phases of the Oil Industry in Western Canada, would you care to pass an opinion as to just where in the various operations the cost of production is most important and does your research and study show there is any vast difference in the cost of production where the entire production area is controlled by one group or by many groups; I have in mind --

A There are several questions, would you mind, I am glad to have the complete statement and then let us break it down into parts and see if I can answer one part at a time.

Q I have in mind Western Canada and you are going out to find an Oil field, would you consider the cost of production and where would you consider it, does that make the first question clear?

A No, I am afraid not.

MR. FRAWLEY: May Dr. Frey look at this, yes, this is nicely typed out and you might look at it Dr. Frey.

(Hands typed question to Witness.)

A Just where in the various operations, I am a little bit confused there.

Q MR. PILLING: Well for instance, I am going into the Oil business; now I must consider the cost of production, should I, where should I consider that, in acquiring my leases, my whole picture figure which in a

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modest way, - the point with me is that, shall I go out on a 40 acres or 20 acres and then expect to have somebody else shut down their operations because I made a mistake going out on 10 or 20 acres; the point which is largely discussed here in Alberta at the present time is, should our leases be held by big operators or by individual groups. I withdraw "the big operators", by individual groups, or should the Government encourage the small operator in these various operations. Now that is the question that I have in mind if I have made it clear?

A May I ask you a question first, does the Government distinguish between large properties and small properties, can one take a large property or a small property?

Q Well, if it is open, the Government will let you take any part you wish but the point is in the cost of production some think that the true place to start, to figure on the cost of production is in acquiring your original setup, in holding your leases in a block and in eliminating if possible the various off-sets that might come in; now that applies here probably differently than across the line; the Government here owns about 90% or 95% of the leases, so that we are not compelled here, as you stated a few moments ago, to drill off-sets under the provisions of the lease, we are only compelled to drill off-sets as the Government requires it because they own probably 90% of the entire area?

A Well then the question is, does your cost of production begin with you acquiring the lease?

Q Yes, I want to know where the proper place is to start

figuring on the cost of production?

A Every element that enters into your cost, whether it is that of acquiring the lease, doing preliminary geological work, are carried on to the drilling operations, right straight through to the conversion to pumps if necessary and the lifting costs will apply to it, all those things are a factor in your cost of production at every point in the producing curve.

Q Well, is there any vast difference that you know of between a group operation and a single group operation, I mean by many groups in the field or a single group controlling the field, is there a vast difference and if there is not a vast difference, I do not care to have the question answered, I am curious to know if there is a vast difference between an operation where many interests are involved or where there is just one interest involved?

A Well, I will have to talk from experience in the States of course; in some States, since there are no well-spacing laws it might be desirable for the operator to get all of the land, all of the leases, covering the individual pool, because by so doing he may proceed under the best engineering practices in the location of his wells and in the manner in which he produces them. It is also possible that by reason of the fact that he is developing a large area he will buy special types of equipment particularly suited to that type of operation and he may develop a programme of development say for instance, he may decide that over a period of so many months he should put down a certain number of

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wells and that will require a certain number of drilling crews and then he will more or less schedule those crews over the field as he develops it. Well, there is the technique of moving and setting up, spudding in, drilling, completing and so on, those things move in under schedule, largely standardized; the chances are pretty good in that type of operation. The cost of development will be less than if that field were split up into dozens of small operations whether they be by large companies or small companies, in which it would not be possible to standardize either the equipment or the methods, quite so readily. Now as far as the difference between splitting up large blocks into smaller blocks, that depends to such a large extent on the number of drilling crews and the economies of individual companies, that it is difficult to arrive at any rational conclusion concerning whether it is the size of the block or the technique, the background and skill of the operator, Without mentioning any names I will cite an example, that in Kettleman Hills, California, there is one oil Company that has spent as high as $250,000.00 in drilling a single well in Kettleman; there is another company that has drilled right along side almost, that is within a matter of 40 acres or thereabouts, that has drilled for less than $140,000.00. Now there was a difference in the time in which each well was drilled. The $250,000.00 well was drilled earlier and in a period when less was known about how to handle the drilling operation and when facilities were a little more difficult

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to acquire but the man who put down the well for less than $150,000.00 says that that has nothing to do with the cost, it is because he is a better driller. What are you going to do, I mean what is the answer? I do not believe that there is an answer that is very positive in that regard.

Q The only point I had was whether in a country here where we can lease and control the acreage in what we believe is the productive area, now is it a good thing to do that, from the production standpoint, or is it better for a lot of individuals to go in there and drill, that is the point I wanted to bring out?

A You are thinking about it in terms of the ultimate economy?

Q Thinking about it in the terms of the cost of production, selling oil on the market at a price you can make money at?

A And, of course, you recognize that various drillers will do a job for less than others, that is to say it is not just a matter of how many individuals are operating the block, is it, it is a matter of the technology which is employed, is it not?

Q Well that was not exactly my thought; assuming they are both the same, assuming all groups are the same, would there be a difference in the cost of production, a vast difference, I was wondering if you knew if there was a vast difference between the cost of production whether one operator controls the entire area or whether many groups control that area, supposing they are all even as far as ability is concerned?

Q MR. FRAWLEY: Let me just add to that if I may, and I think I know what is in Mr. Pilling's mind, supposing there were, apart from Turner Valley altogether, a new structure which was regarded as a potential oil-bearing property, nobody has acquired a lease at all, it is all in the Government's hands as to how those leases should be granted, would it affect the cost of production, when we get the production, would the production out of that area be more cheaply obtained by giving it all say to one company, anybody's company, Mr. Pilling's company, or the Imperial Oil or anybody else, giving them the whole unit, the whole structure, the whole area that the geologist has laid out, and have them produce the oil from all of that area with one, two, three, four, any number of wells they want, or would it be cheaper for the Government to turn it out in 40 acre pieces and put, have a well put on every 40 acre piece, that is the other extreme?

A Here is where the difficulty is in answering the question, you must expect a certain amount of administrative expenses and supervisory expenses in operating oil wells. Now if the number of wells is below what can be efficiently supervised by one man, we will say, then quite obviously that supervising expense rises to a considerable level and if on the other hand, the number of wells operated by each company is such as to keep that supervising expense in a reasonable relationship to the quantity of oil produced, then it does not seem to me that it makes any difference whether there

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are one or a dozen but I would say, however, that in the matter of the development of the field that probably greater economies would be effected by considoring tho field as a unit in which either all of those who participate in the ownership agree to some plan of development or that that plan of development is definitely imposed upon the field by tho Government.

Q Whether one man owns it or 40 people?

A Or 40.

(Page 10,791 follows)

Q MR. COMMISSIONER LIPSETT: You were dealing with Mr. Frawley's original question on the subject of cost and the possibility of drilling without knowing the cost and you gave some reasons why a man would be forced to continue drilling because he might lose his proportion of the oil in the field, and similar reasons that would compel him to go on drilling apart from any knowledge of the cost. I was wondering if that quite covers the case of a man say who owns 40 acres or a 100-acre lease and has not the money to go and drill himself, no matter how all-compelling the reasons may be, and has to go to the public to raise money to drill on a 40 or a 100-acre lease, whatever he might hold. Now, is it a complete gamble on the part of the public or is he in any position to give any estimate of the cost it would take to produce and so on?

A He is in a very poor position to give any figures on the cost of production. He might, however, give them some idea about what their reasonable chances are of finding oil. He cannot tell how much oil he is going to find. Neither can he tell about the various economic factors that are going to impose a price on that field. Those are to him almost unpredictable. Those who put money into oil wells must recognize that they are taking a risk and if they are not in a position to take a risk they had better not invest. It is not an investment until the oil is found. He has some figures that he might fall back on. For instance, in the United States - I think I will refer to this little booklet of Dr. Pogue's, Dr. Pogue says that the way to find one billion barrels of oil is to drill 4,000 dry holes. In other words, that there is a sort of statistical relationship if you take a large enough number of samples between the

reserves that you acquire and the number of holes that you drill and the ratio of dry holes to producers. Now, as I cited this morning-----

THE CHAIRMAN: If you have no objection, we will mark that book as an Exhibit.

MR. FRAWLEY: Yes. Dr. Frey offered it to me so I will put it right in and leave it with the Commission now. It is entitled "Economics of the Petroleum Industry," Joseph E. Pogue, Vice-President Chase National Bank, March, 1939.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "450".)

A On page 2 of the statement that I read this morning I quoted from the Bureau of Mines: "Of continued interest was the decrease in the ratio of failures. Although the number of dry holes increased from a certain number to a certain other number the percentage of total completion declined from 23 percent in 1935 to 21 percent in 1936. The ratio was the lowest in 20 years." Well, now, on a sample such as we have, you can see that between these two years there was only a 2% variation and with wild catting and all types of proven areas, still the percentage of failures remained at 21 percent to 23 percent, of the total number of holes drilled. There are in large enough samples some reasonable ratios between what may happen if you drill 1,000 wells in terms of what might be expected in terms of producers and in terms of dry holes. Now, then, when you get into wild catting, the percentage of failures quite obviously is higher, because a very high percentage of the wells drilled in the period under consideration in those two years by the Bureau of Mines were in areas of what you might call settled or proven production, and the wild catting was less active

then, which accounts for or is one of the reasons that the ratio was the lowest in 20 years.

Q MR. COMMISSIONER LIPSETT: Does that picture, as you explain it, Dr. Frey, does it lead towards the conclusion that operations in a Province such as this would have to be done by some very large organization able to bear a relative number of failures, and able to get a large enough acreage to make it worth while to experiment. Is there room in the picture, as you see it, for a small man with 40 acres or 100 acres?

A There is room for men who are willing to take a chance. Of course, the more that a company has back of it the less each individual failure hurts. But failures hurt anybody. You have got to make provision for that. There is room for the man who is willing to take a chance. That is again a type of mind. This thing gets to be very subjective. It is not clearly an objective situation in which the sum of two and two equals four minus one equals three. We are dealing with human emotions, with aspirations, with ambitions, with that quality that puts one man over the top and makes the other man say "I prefer to take things as they are and sit by my own fireside." This thing is not clearly objective. It is subjective. We are dealing with human emotions when we are dealing with the oil man mind.

Q I was rather thinking how the picture fitted the illustration that you gave of a man having to go on drilling. He might go on and drill 18 holes and still be optimistic of the 19th. I was wondering where the money could come from, either from the public or any small owner or anybody except some very large and thoroughly financed organization?

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A A very large amount of the money comes from the public. If I might be personal. I have a friend with whom I went to school back there in Chicago who got along quite well in oil field development and we thought he was doing right nicely when he accumulated about three million dollars. And then my friend seemed to lose position and the first thing I knew he did not have anything and he was looking around for some more. But he got some backers and went back at it and that 18 holes I have just mentioned is - while it is hypothetical, it happens to be the number of wells he has drilled now in a straight row without getting anything. He hopes the 19th is going to come out all right. Incidentally, I will take another example. I won't mention the name, but a very prominent man in oil affairs in the United States; one of the most outstanding men among the independent group in the States; a fighter, courageous, a man. He has fought any number of times on propositions where he had most everybody against him. He has the courage of his convictions. In 1930 this man, who had done a great deal towards the development of the Oklahoma City Pool was worth 29 million dollars. That is, he told me that he was worth 29 million dollars. The Oklahoma City field was to a very large extent town lot development and the number of off-sets that had to be drilled was very large. There was some possibility there even though one had to drill a large number of wells. It was a tough field, about 6,000 feet, and a good deal of it limestone, but one could make good on it. Until East Texas broke loose in 1931 and, without any control, the price went down until I know of instances where oil was sold at 5 cents a barrel plus 3 cents

delivery, 8 cents net in the East Texas field. That caught this friend of mine who was forced to drill off-set after off-set. In 1932 he did not have one red cent to rub on the next.

MR. PLOTKINS: Mr. Chairman, I would like to ask a question.

Q You are dealing now, Doctor, with private individuals taking a gamble. Now, will you paint us the picture from the major company standpoint as to what the risk is there; what the relationship of drilling is to the rest of the industry?

A Well, I have talked about groups. All we have, as you know, are these composite statistics when I actually mentioned the relationship between the number of dry holes and the number of producing holes and so on. Do you mean does the large operator take risks that are commensurate with the individual?

Q Yes? Well, not exactly that. What is the statistical position of a large oil company. We will take the Standard Oil of New Jersey, in its drilling operations, in other words, do they take the same gamble or are they in a position to predetermine what their risk is and whether it is profitable to drill or not on the whole?

A I am afraid there is one of the things in which you will have to take my word for it because I cannot show you the statistics. But a number of us who have been in a position to examine these statistics personally have raised a similar question and we cannot find that there is any considerable difference between the risk taking of the large company and the risk taking of the individual, that is in the number of wells drilled. The large company will do as a rule more in the way of preliminary exploration before it steps in. The individual may or may not, depending upon how much money

he has back of him. But strange as it may seem something makes the thing average up because the large companies in wild catting are just about on the same scale as individuals in wild catting. Now, of course, either one in a proven field will be about the same. It is only in the question of wild catting and the principal difference between them would be the policy of the large companies towards wild catting, in which some are more venturesome than others.

Q But, Dr. Frey, in the large company not wishing to gamble except on profits or on a part of their funds to maintain their relationship, would it not be reasonable to to expect the Standard Oil of New Jersey only to apportion a certain amount of money towards wild catting, only that portion that they feel will keep them in the relative condition that they find themselves at that time and thereby not run the same risks as the individual, staking everything on a wild cat well.

A Well, in my experience I have not found any more disposition on the part of a large company than on the part of the individual to make unnecessary expenditures or take unnecessary risks. After all, a company is only a composite of individuals and individuals more or less run true to form within a class. So that except for the fact that the company with large resources is in a better position to stand the heavy loss than an individual, there is a cushion to fall back on, and the percentage of that failure may be small in the total operating costs of the company, yet I have not seen any disposition on the part of large oil companies to court failure any more than individuals.

Q That is not the point I am asking you to consider, Doctor,

Is not the industry - and when we say the "industry" we mean more or less the operating integrated companies - you agree with that?

A No.

Q You include speculators?

A Absolutely.

Q And people who are willing to gamble?

A Everybody is in the industry who has anything to do with it.

Q Probably that is why you do not understand my question. I am referring now to the integrated units that make a business of producing, refining and selling oil and they must not gamble if it can be avoided. Therefore, what I am asking you is a company, an integrated company such as the Standard Oil of New Jersey, when it considers its drilling programme for next year, would it just put up a disproportionate amount of money and gamble its very life on going out and finding a lot of oil or would it not, as you would reasonably assume, only apportion a reasonable sum in view of its profits or its anticipated profits, and go out and gamble, and it is not exactly the same kind of a gamble as you have already told us, to maintain reserves?

A Well, first of all I will have to admit I do not know what the policy of the Standard of New Jersey is, and can only view or observe the sort of things they do. I do not know how they budget their exploration and I do not suppose there are very many people outside of the Standard of New Jersey who do. But I will say this about general corporate management, that any corporation that fails to protect its assets is in a hazardous position and practically all corporation finance revolves around the problem of insurance

of capital. Now, earnings are objective but even if you cannot earn you try to protect your capital. Now, in that I do not believe that the Jersey Company would be particularly different than any other conservative company that has a tremendous capitalization. When you mention the Standard Oil Company of New Jersey you are talking about a corporation that is worth in the neighbourhood of two billion dollars, and is, if not the first oil company in the world, it is the second. It has many, many subsidiaries in many different kinds of activities. The Standard of New Jersey is not only concerned with producing crude oil and refining it and selling it but it is in many other activities. It is in the gas industry. It is in the shipping industry. It even makes cosmetics for the ladies and Nujol and various other things of that sort for pharmaceutical purposes. It has a very elaborate set-up. Thousands and thousands of ramifications. Now, to pin anything down as to policy with a company of that magnitude requires a degree of detailed information that is possessed by very few. It certainly is not possessed by me. So I can only argue that probably the Standard of New Jersey by reason of its enormous capitalization and its great diversity of interests, with the very heavy problem that it has in management, is probably, if anything, a little more conservative than most oil companies. That is about all that I dare to say from what I have observed. Does that cover your point?

Q Yes. Now, in connection with the computing of costs, and again when I mention the "industry" I want you to understand that I am referring to the large integrated companies, There has been developed over years a successful basis and

adopted by these companies of computing costs, known as the straight line method, has there?

A I will answer this way. The American Petroleum Institute has had for more than 17 years a committee on uniform accounts. Mr. Gidney, the Controller of the Gulf Company, was the Chairman of that Committee, probably longer than any other person. Mr. Gidney told me that while they had made a serious effort towards uniform cost method in production, refining, transportation and marketing, that they never have got anywhere except in production and that there was more agreement on production costs than any other.

Q But these costs as ascertained and computed by the various companies are used in practice to conduct operations and to decide whether there are certain operations profitable or unprofitable?

A You are informing me?

Q I am asking you.

A I cannot answer.

Q Well, would you not expect any company with years of experience behind it to arrive at certain conclusions as to what would be a fair cost of producing oil?

A I would expect any company with any experience to set up indices of price and cost movements within their operations. But to say that all companies accept the same principle, I would not be prepared to say that. But I would be prepared to say that they all set up indices to indicate the nature of the cost movement.

Q Yes, and they use that particular basis in deciding whether an investment is going to be advisable or not, when it comes to production?

A Naturally they must use something to arrive at a judgment as to whether they go ahead or not.

Q And if their experience had taught them that the system was wrong they would have abandoned it?

A Not necessarily. They might not have anything better.

Q They might what?

A They might not have anything better.

Q But the very fact they are successful in paying dividends year after year - while it is true for some time they might not pay dividends - but over the long years average they do pay dividends, would not that be conclusive proof that the basis of their computations has been found in practice to be reasonable?

A No.

Q I would like to know why. It is only for information.

A Because you assume, I am afraid, that all types of operations are more or less identical in nature of integration and that a company - that all companies, such as you call the industry or so-called integrated companies are operating in a similar manner. Now, the fact of the matter is, they are not. Certain companies produce a high percentage of the crude that they use. Other companies produce a relatively small percantage. Some of them have very large refining capacity with respect to their sales, their sales through their own outlets. Others have comparatively small. Some buy large quantities of gasoline and other products from others. Some buy small quantities. Some are engaged in foreign trade and some are not. Some use their own type of wholesale distribution, company-owned, and others have a mixed type. If all companies were similar in organization and in objectives and if profits

were derived from the same places by each of the companies there would be relatively little conflict between them. But the difficulty in trying to get companies to agree on plans of action - and I have had considerable experience personally in trying to get companies to agree to do certain things - is that the objectives of the companies are different, and consequently to say that they use a straight line method of cost determination or any other type of cost determination has proved that the method is good by reason of the profits derived is to deny the fundamental thing which is that they do not all have the same objective and do not all have the same degree of integration.

Q True, Doctor, but as we find one company, the Standard Oil of New Jersey, property integrated - it is true various of their companies only perform certain functions, but the mother company, the parent company through its subsidiaries as a whole performs all the functions and would it not be reasonable for them and the fact they are using it, would it not be reasonable for this Commission to take and disregard these various operations of the various companies and fundamentally go back to the one operation, producing, refining, manufacturing, that is, and marketing, and consider the relationship of the cost of the products to the selling cost?

A Now, in the first place you said that the Standard of New Jersey was a properly integrated company. What did you mean?

Q I mean they act through their various companies. They have producing companies and refining companies. In other words, they have companies that produce and they have companies that refine. Some do both and some only do one. Some companies do marketing and some of them do all. But as a whole they

do produce, refine and market and in their case at least it would be sound business practice for them to adopt some method of determining crude production cost and they do in fact determine production cost and use it in their business in arriving at cost?

A They would be very unwise if they did not try and set up production costs that were suitable for whatever purpose they cared to make use of. That does not necessarily mean that the production cost that they set up is "the production cost". It is "a production cost."

Q True, but is not that true of any business, even the refining business. I built a plant and I do not know how long conditions will permit me to stay in business and while I have provided 10 years' depreciation I may only exist 2 years. The same with taxes and the same with everything in the cost of production or in the case of any business. So we must assume something. Is not that true of production as well as any other phase of industry?

A Well, naturally a company that sets up indices of operating costs assumes things. The only question between you and me on that is are the assumptions that they make the ones that this Commission should accept? I say since I do not know what they have assumed I can hardly what they should accept.

Q But can't we find out what the industry in its individual units has assumed and not only assumed but used in their computation in arriving at what is either profitable or unprofitable. It is a practical proposition and not a theoretical proposition?

A It is a very theoretical proposition. You are assuming that you can read the mind in determining why they assumed and then you must put some sort of a moral interpretation on that thing as to whether they morally did right to assume. And that is subjective. That is not objective.

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Q Well that is literally true of every computation of every business?

A Oh no, it is not.

Q Why is it not?

A All right, let us take an example, this desk down here, made by a millwright maybe in this town. You can put a certain amount of lumber into that, you have a certain amount of machinery use against it, you can even determine to a reasonable extent how long that piece of machinery is going to last and you can put a certain amount of labour in it and it costs you a certain amount to sell it, that is an assembly proposition. Now you can calculate cost of assembly much more accurately than you can of an extracted industry.

Q We will take a similar, the use of machinery, we can tell how long it is going to last, that is perfectly true, but we cannot tell how long we are going to use it because conditions may not permit us to use it or it may become obsolete, so how are you going to determine the use of that machine and the construction of that desk if you do not allocate arbitrarily to the best of your judgment, some portion of that cost?

A All right, you will do a certain amount of allocating of depreciation and obsolescence; on the other hand you have to remember that that particular element in the cost goes so far down that whether you effect it much or little, it is not going to make as much effect on the cost as in items where depreciation, depletion and the writing-off of intangible costs, constitute a higher percentage of the total operating costs.

Q You mean degrees?

A Yes, you can call them degrees.

Q There is no essential difference?

A Oh yes there is, a fundamental difference. Now in an extracted industry anybody who has ever mined coal, run a gravel pit, operated a copper mine or an oil well, knows that there is a fundamental difference between his type of operation and the assembling of desks, automobiles or what not.

Q And you say, Doctor, then that because there is a degree of difference in the amount that we should allocate in any given article, whether it be gasoline or whether it be a desk, that therefore in one case we can arbitrarily determine it and in the other case we are stopped from doing it?

A I didn't say stopped from doing it. I said your arbitraries become much more speculative, much more of adventure. Maybe you would be interested in knowing about what percentage these items bear to total cost; take the 1931 under the heading of Expenses, you will find in the cost report, page 6, that depletion for all groups was .084, that is 84/10 cents, that depreciation was 16, that amortization of intangible development was 3 7/10, that operating costs were 22; general overhead and administrative were 34.7, out of a total of 84.8. You see that your depreciation, your depletion and your amortization of your intangible development costs, what they total, and they are the items of variables, they are the variables in the thing, that they represent the higher percentage of the total.

Q Do they represent any higher percentage than the ordinary industrial enterprise, I am just speaking from my own ex-

perience?

A Yes they do.

Q To any great extent?

A Tremendously. Let us be specific, on one hand, let us even take it and compare it, with another extracted industry, coal; over 50% of the cost of bringing up a ton of coal is labour in the United States; well we cannot find that relationship here where the operating cost which is the current expense of labour, repairs and many other things, is only 22 out of a total of 84.

Q Yes, but you have just read some figures on administration which is also labour and that is quite a heavy percentage as you will notice?

A Well I am not counting the cost of administration in coal mining. I am only taking labour on production.

Q So you say that it is not practical for the Commission to formulate any particular policy and arrive at a basis of cost, which would compare to the facts of the companies, in arriving at the relationship of cost, that is to be comparable, they should disregard profits, if they are to disregard profits, what are you going to put in its place?

A What company are you going to take, are you going to take the Imperial or what it is, the Royalite, as a basis or are you going to take Mr. Davies or I do not know the names of all your companies here. I have heard those two but which are you going to take, one with 7 wells or 12 wells, 15 wells or who is going to be the guide and what is the criterion? Why take one company rather than another, I do not care whether you say large or small, let us pick out a small one, I do not know the names, so you pick it out.

Q Before we do that, I want to make it a little clearer, first

you would have to have some basic method of comparing those two, in other words, you would have to adopt in every case the same factors in order to get to some comparison, would you not?

A Well that is what we did, yes. We arbitrarily did that.

Q All right. Then having arrived at these basic factors for each plant, what constitutes drilling costs, what constitutes royalty and so forth, would it not be reasonable to assume that the proper method of arriving at the cost of production in Turner Valley would be to take the experience of all the companies that are operting in there?

A No, because they do not have enough experience. You must know in addition to the conditions which you have just described the answer to the 12 questions which I set out concerning the physical charactertistics of the field.

Q That is true, Doctor, but the Commission has already arbitrarily decided what there is there?

A That makes no difference whether they have or whether they have not.

Q And they certainly can use that basis?

A They can use any basis that they want to but it does not necessarily make it correct.

Q No, but you told us it is impossible to get the correct answer?

A Yes, because only history will tell you the correct answer.

Q So therefore the best we can do is to approximate it?

A An approximation is not worth much if it is based on a small sample.

Q Well we can at least find out the cost of Turner Valley?

A And what good would that do?

Q Well that is all the Commission has to find out?

A What good would it do if you found it out?

Q I will not say it will do any good?

A Then what is the use of doing it?

Q But it is possible to get that history as to what it would cost?

A I said that quite definitely at the outset, that surely you can determine the cost of production if you assume enough arbitraries, that is the answer to that. All you do is set up the arbitraries and you can get the answer. Anybody can get the answer. Send a child down there with a ten cents slate and get the answer if you give them enough arbitraries.

Q Doctor, in your review of the United States drilling costs, you have come to a conclusion that seems to be reasonably close to the facts?

A We hope they are but we only call them "approximations".

Q Yes, but they are more than a guess?

A They are the result of statistical sampling.

Q The result of a wide knowledge of the conditions existing in the various fields in the United States?

A Well there is some of that, we will have to grant.

Q And you say it is not practical for this Commission to use the same factors in arriving at the cost of production to date and for the future it is more or less problematical because you say you have to assume quite a few things?

A I would say it is very nice, if all you want is nice information, yes, assume some arbitraries and then have a cost-of-production study made and then in five years from now do

the same thing and five years after that do the same thing and then it would be kind of nice to get a historian to sit down and see what happened in the meantime.

Q Is it not more than nice, is it not af vital interest to the country to find those things out?

A No it is not.

Q Then why the gathering of all this information by the United States Bureau of Commerce?

A To guard against contingencies in which we might have been faced with someone having the idea of setting a price on it.

Q You do not think it is with the view of arriving at or giving the industry some information so that they can protect the country for their oil requirements for the future?

A No.

Q You do not think that is any concern of the American Government?

A I think it is very much the definite concern of the American Government to see to it that we have future reserves but there is no relationship between this and that future reserve except one thing and that is that we have pointed out the price that will bring out certain quantities of oil, not the cost, please, the price.

Q The price, yes, so that in the oil industry cost is dependent upon price, is it not, Doctor?

A It very definitely is.

Q Yes, so that when we come to valuing crude oil we must first find out what we get for the product?

A It is what you are going to get today, tomorrow, the next year, the following year and on to the end of the life of the field.

Q Is it necessary to know what is going to happen in ten years from now, to know what we are to do today?

A It is quite. Supposing that another oil field is developed in Alberta, which is not unreasonable to assume, and supposing that field is a shallow field and not a deep field like this one, and supposing the out of pocket costs are much less and supposing it does not pay to put in pumping equipment down here in Turner Valley and supposing this new field flows, then what difference does the cost make. It is the price.

Q Is that not only temporary, that it makes any difference, that field in Turner Valley will some time, will go back, when the price permits it or when the demand is sufficient, you see what I am concerned about is this, is it necessary to know what oil is going to bring ten years from now, is it not a fact that ten years from now the price which will be paid for oil will determine what we will do ten years from now?

A That is to a large extent.

Q So it is sufficient to say to calculate whether it pays us to drill or do anything in the oil business, on the basis of known facts and the prices we receive today for our products?

A Yes, today's price as it is affected.

Q So that we are gambling, if you call it gambling?

A I did not call it gambling, it is very definitely speculative.

Q When we come to invest and devote a part of our funds towards drilling more wells to continue to keep up the supply to the demand, we are not gambling, we are devoting a certain portion of our funds to protecting our investment and not only to protect it but to continue operations?

A I said that.

Q Yes, so that the speculative part of the business is in the hands of the individuals or companies, that asks those to just do that, to speculate or to devote a part of their funds to that?

A Oh no. Every company that is extending its area of development is speculating on the future.

Q Yes?

A And it is nothing else.

Q Speculating on the future. Well is it not reaonable for that company, a given company, to go back on its experience with its geological data and all this information, all the information it has, to know how much speculating they are doing?

A I am not concerned at all about the morals of it. I say that is speculation and that is what they do.

Q So that coming back to the cost of production you do not believe that this Commission or a commercial concern should arbitrarily arrive at what in their opinion and in the light of their experience and judgment is a sound method of determining the costs in arriving at what price they can stay in business, in other words, whether they are justified in continuing operations and selling gasoline we will say for 12½ cents, the gasoline that they are producing and refining and marketing?

A As far as the individual is concerned he must form his judgment as to whether he is operating within the range of possibilities of the return of his out of pocket costs and amortizing his investment in the development. He must do that if he is operating within reasonable corporate standards.

Q Then if we have eight companies doing that on an average and then the sum total of all those companies, it is only a small percentage of the industry that does not make a profit, would that represent a sound----

A In Canada or in the United States?

Q I mean the United States or Canada over a period of years, we have had statistics here that show a profit of only 1. something percent but that is information or statistics which is based on all the investments made not only by intregated companies and companies of experience but the experience of speculators, which has nothing to do with the industry except perhaps to provide some oil stocks for them?

A I do not know what the bases of your statistics are and I cannot comment on whether they are inclusive of all types of interest in the industry or not. With individual companies there is all the difference between being in the red and being out of the red and those that are out of the red and in the black in the last four months have earned very small dividends everywhere in the United States and some of them have earned nothing, and that is not all, but some of them have been earning nothing for a long time.

Q What percentage do they represent of the total sales of the industry?

A I do not know.

Q They would be, you would consider them a small percentage?

A No, I would not. I would say that a very large proportion of the industry in the Mid-Continent; now you are talking about integrated companies and that is what I mean, that a very large fraction of the integgated companies in the Mid-Continent have not been in a profit position for a long time and that many of the indepandent refineries have been on the rocks in the Mid-Continent for the last eighteen months and the only one, the only companies in the United States that have been showing a consistent profit in the last couple of years are companies that are fortunately located in production.

MR. PLOTKINS: Thanks, Doctor.

Q MAJOR LIPSETT: These fifteen to twenty year reserves, Doctor Frey, that you mentioned as being estimated in the States, are those developed reserves?

A Not entirely developed but they are known and not anticipated on some type of geological information which you might say, possible fields to be developed; they are actually known developments, not necessarily completely developed but in which the area is proved.

Q Would the building up of those reserves account for what you describe as the very small ratio of profits or the losses that the companies have been sustaining?

A Not so much the accumulation of the reserve as the bad use of it, Now where the reserve has been pulled on too hard, where there has been a break-down or an absence of conservation legislation, the quantity of oil which has been available to the market has been so in excess of the demand, it has had a most destructive effect on price depression, on price, it has depressed the price.

Q What I was thinking of rather, Dr. Frey, was that if the various organizations had built up reserves for 15 or 20 years supply, that that must have entailed a very large expenditure, which otherwise would have presumably appeared as a profit?

A Oh, that would assume that they had drilled up their 15 years supply and it would also assume that they had in mind producing all of the oil which they required for themselves, neither of which is a fact; there is no large oil company in the United States that produces any considerable fraction of the oil that it uses; of the 22 integrated companies, the large integrated companies, there are more than that integrated, but the 22 large ones, I know of only two that produce as much as 60% of their requirements; all the rest have bought and there are some integrated companies that are producing less than 15% of the oil that they consume and the other thing is that when you prove a field, if it can be avoided you do not extend the development any further than necessary for the moment, so that we know a great deal of oil

is available to the drill but a great deal that has not been drilled beyond the exploratory or just estimated development stage but as soon as an oil field is definitely proven and the outline and other physical characteristics of that field become known, we consider that that is proven reserves and this figure which I gave you of from 15 to 20 years supply is based on that type of calculation.

Q It does not necessarily mean oil stored in the ground and definitely drilled?

A It means stored in the ground but not necessarily drilled but definitely known, that is it is proven, it is not a thought that it may be found, it is that it definitely is found.

Q That is that by putting a well in a certain place and a another one a certain distance away you would estimate that the intermediate ground is oil-bearing, is that the sort of thing?

A Well for instance, if you could have stood there in 1934, we knew the physical characteristics of the East Texas pool about as well as we do now. We knew where the edge was. We knew how thick the sands were and how they tapered out. We knew the porosity all over the field. We knew the permeability. We knew the effect of closing in and allowing pressures to accumulate. It was possible to calculate the amount of water-drive that could support the production on the basis of the thickness of the sand and the amount of oil in it and the freedom of movement in the field and the gas in the oil, the breaking point of the gas out of the

oil, all those physical characteristics, and it was just a matter of geometry, of just making a calculation, of what that wedge looked like when we considered how much oil was in each acre of it or a square foot or whatever measurements you happened to decide on. Now we say then that that was proven and on the basis of that in 1934 the estimate was that there were two billion barrels in the area but that was before production was controlled and after production was controlled they had to re-calculate the reserve because the slower rate of recovery meant a larger ultimate recovery per acre and on the basis of that the figure was increased from two billion to four billion barrels.

Q Thank you, Dr. Frey, that still meant that the money had to be spent to do the drilling?

A Yes, that meant that between that time and this more than 15,000 oil wells had been drilled into that.

Q There was just one other matter, Dr. Frey, that I, you referred in this book and I was wondering whether it would be better for Mr. Frawley to get it all on the record, that is on Pages 6 & 7, where you give the average costs of all groups?

A Yes.

Q For 1931 on to 1934 and then for the inclusive period of 1931 to 1934?

A Yes.

Q I notice just below that figure there are figures for the average sales value at the well?

A Yes.

MAJOR LIPSETT: And I was wondering, Mr. Frawley, whether it would be interesting to have that read into the record.

MR. FRAWLEY: Yes, well, Dr. Frey, would you be good enough to, you read this morning the second last item, net cost including interest, at these various times, for all groups and then the next, the very next of the last item is, Average Sales Value at the Well, which is set right down opposite that in each table.

(Go to Page 10,817)

A Would you like 1931, 1932, 1933 and 1934, for instance?

Q Yes, to put down opposite each figure you gave us this morning a figure showing the average sales value at the well at each period?

A Or do you want each of the expense items?

Q MR. COMMISSIONER LIPSETT: If I might just hand you the book. I marked with a circle what I thought might be interesting to have, Doctor Frey?

A All right. Commissioner Lipsett would like the net cost including interest and the average sales value at well for all groups during the years for which this survey was made.

Q MR. FRAWLEY: I suggest you perhaps repeat the net costs again, and then we will have each one against the other?

A In 1931, all groups - that means all areas in which there was production - the net cost including interest, 89.4¢; average sales value at well, 64.3¢. 1932, net cost including interest, 80.8¢; average sales value at well, 85.8. The period January 1 to September 30, 1933, net cost including interest of all groups 69.9; average sales value at the well, 57.8. October 1 to December 31, 1933, net cost including interest, 77.2; average sales value at well, 99.2. 1933 combined, net cost including interest, all groups, 71.7; average sales value at well, 67.8. 1934, all groups, net cost including interest, 77.5; average sales value at well, 98.4. The composite for the entire period, 1931 to 1934 inclusive, all groups, net cost including interest, 79.8; average sales value at well, 78.7.

THE CHAIRMAN: Doctor Frey, if you are not weary - would you like a rest?

A I would not object.

Q Well, we will take five minutes. I want to ask a few questions?

A All right.

(At this stage there was a short recess)

Q THE CHAIRMAN: Doctor Frey, I will not keep you long, but there are just a few things I want to ask you about. As Commissioners, of course, we are answering questions which arise out of questions put to us by His Honor in directing this Inquiry, and that calls for our consideration of the problems of different classes of people. First of all we are asked questions concerning the producers, and as I understand you, you say that the sample is not large enough and we have not the historical back-ground which would permit of our saying, or rather, of our intelligently estimating the cost of production. That is, as tritely put, as I understand, your position?

A Yes, sir.

Q Well now, if we do not know the cost of production, we cannot use it as a factor in coming to the next question which has been propounded for our answering, namely, what is the fair field price to that same class, the producer. I mean, we must, I take it, if that is unknown, we must eliminate it. I am not entering on a discussion of the field price now, but that is a fact?

A Yes.

Q As a process of reasoning, we come to that?

A Yes, sir.

Q If the cost of production be eliminated in attempting an answer as to the fair field price, we must look to

other sources for determining that field price.

Now, I understand you are to speak as to the field price?

MR. FRAWLEY: That is so, Mr. Chairman.

Q THE CHAIRMAN: At another time?

A Yes. Mr. Frawley has asked me to speak on the field price.

Q So I do not wish to enter into a discussion of it as yet. But am I not right in thinking that however that fair field price be determined, it must be high enough to permit all the out-of-pocket costs of the producers being provided, insofar at least as the producers who are not in integrated companies are concerned?

A Of course, so much depends there upon the interpretation of the expression "fair field price". That is what makes it difficult to answer yes or no to the question. If you were under an automatic economy, you could then state that the price would have to be what would pay operating costs and leave sufficient above it to continue or maintain stimulative developments. But if you are not in an automatic economy, what constitutes a fair price may be entirely a matter of the general competitive situation.

Q Yes?

A So that one must either assume that the economy is self-contained and susceptible of isolation from all other economic effects or one must assume that the production of this province is after all only a part of the total world picture, and then we deal with the relationship of this economy to other economies.

Q And so, when in the end we come to offer an opinion, if we do, as to what is the fair price to the consumer, our true starting point would be, on the theory advanced

as I understand it, what is the competitive price of crude?

A That is essentially where you should start, that is, if you take the second assumption that this is not an independent economy?

Q Yes?

A That it has contacts with other economies.

Q Yes?

A Then the competition that exists between those economies must be the important factor in what constitutues a fair price to the producer and the consumer.

Q We would have to consider whether or not from the producer's stand-point in Turner Valley, we would have to consider as to whether or not that competitive price, if it continues, will permit of his staying in business. Or, yes, we have to determine if the competitive price from other fields permits of the producer in Turner Valley continuing to produce. If you eliminate now the great corporations that may produce at a loss over a period of years for ultimate advantage?

A I think that is an objective, but how far we can actually accomplish an objective presentation as to how much of a price is necessary, is highly problematical inasmuch as we may not be able to do more than recognize what price competition will permit.

Q Yes?

What I am getting at, is, it would appear that the evidence thus far is stressing marketing and refining. While a marketer may market for a little less or may require something more within which to market, and the same may be true

of the refiner, yet if we can say nothing at all about production, and we can say nothing at all about the fair price for the product produced, I do not see how we can say anything at all about the fair price to the consumer. Because when you have taken off, if you do, one cent for your marketing and a cent off your refining, or two or three if you like, the fixing of the field price, if it be followed in the field in which it is fixed, can pick that up over night?

A That is, you think the possibility of a field price advance is such as to reduce the effect of any reduction that might come through either refining or marketing economies.

Q Yes?

A Well, there are some relationships of course there, and those are relatively simple calculations, which, if they have not already been given, Doctor Brown could give them, as to the effect of every 5¢ rise in the price of crude oil on the cost say..........not on cost, but the sales realization of the refinery.

Q To put it shortly, because I think probably I have not put it well - to put it shortly, I would say if it were established that by diverse economy, the cost of marketing, of which the last witness before us was speaking - could be reduced by a cent a gallon, and the fact remains that there is a relationship between the cost of crude and the cost of the refined product as I understand it - as one goes up the other goes up?

A If you are going to get a sales realization that covers your cost of crude, then some one or all of the products must reflect the change in the crude oil price.

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Dr. J. W. Frey

Q Yes. If we can make no recommendations in short that have anything to do with crude oil, or if we can make no such recommendations.......?

A We can only predict what effect the various shifts in marketing will have on the price of crude oil, and what the competitive effects are on that crude oil. The difficulty in the expression is that word "fair" because fair carries with it some kind of a subjective qualification, and my approach to the question is an attempt to escape the subjective and actually reason on the basis of what takes place under a given set of economic conditions. Now then, as to whether the price has been first a fair price, that I do not know. It is a price, and it is a price that bears a relationship to certain other things, and probably since the economy is a competitive economy, probably the sequence of the operation of that economy might be considered fair if there is a reasonable return.

Q Now we will say that the price of crude today of a given standard is $1.30?

A Yes, sir.

Q We know that, That is $1.30. We are told that is the price. We are using fair in its moral sense. We have not any idea on the evidence as presented by you, as I understand it, as to whether or not that bears a proper relationship to cost, for reasons that you have given. But we know it is $1.30, and we know that the reason it is $1.30 is - I hope I am putting it fairly - is because those who have wide experience and who have no doubt taken into account the situation in competitive fields have said "That is the price

which we think should be fixed in Turner Valley," and so it is fixed. Out of wide experience, using their best judgment, they have said, having regard, no doubt to other considerations of which we will in due course hear, they have said "A dollar thirty is a proper price." And so it is. All right. Perhaps when the evidence is all in we will be able to say that that judgment is a fair and just one, in the light of all circumstances. Proceeding from there, we know $1.30 is all right, we will say. We then want to know the cost of refining; we want to know the cost of marketing; we want to know the cost or at least the price at which it goes to the public, and it seems to me to know that, having regard to these intervening steps and the proper costs incident thereto, that there is a true relationship between the $1.30 and what the consumer is paying on the street?

A That is disregarding the fact of course that all of these products do notsynchronise in their movement, or rather, that does not take account of the fact that all of the products are not in close synchronisation, because the competitive factor may be such as to prohibit synchronised movement in all products prices. However, I have been working at this problem that you have presented ever since I have been here, and I have been putting it against my experience in the States, and I am trying to evolve a philosophy concerning it.

Q Which I do not ask you to give expression to now, because I understand you want to consider it more?

A I want to give it much more consideration, and especially to develop it as a concrete reality with definite, very

specific setting.

Q Yes?

A And I feel that if I ventured an opinion now, that I would not be in as good a position to elaborate and make the proper development anticipating how I am going to work back to that field price.

Q I am quite content that you should defer that, But would you venture an opinion in the meantime as to this; assume that a company that is an integrated company, that is posting the price in this Valley, namely, the Imperial Oil Company. It posts a price at so much. Let us say after having heard all the evidence about how that price is arrived at, that we are of the opinion that it is a fair one. Let us assume that for the moment. I may say at the moment I am not at all satisfied as to the evidence we have had to date with respect to how that is arrived at, so as to be able to form a judgment as to whether it is fair or not, in order to answer the questions propounded to us. But assuming for the time being that that is all right, and assuming that the refining costs were too high or too low as the case may be, and the marketing costs were all right - making any assumption you will until you get down to the consumer. All I am putting up for the moment is, if we found that the consumer's price was too high or too low, what is to prevent the integrated company that is a large producer as well as refiner and marketer from saying "All right, knock off 1¢, 2¢, or 3¢, anything you like on the marketing and refining which is what this Commission has been concerning itself with, and we will get it at the other end in what we will pay for our crude, and nobody is to say us nay. They can

sell to us or sell not at all." What would be the answer to that?

A That is a very difficult question to answer at this stage because I feel that in order to answer that question adequately, I will have to carry on through the whole theory of marketing operations.

Q You at least appreciate what I have in mind?

A Yes, sir, I know what you are thinking about.

Q At this moment I am making no assumption that either marketing or refining costs are too high. Not at all. We will hear no doubt much evidence yet on both those subjects. At the moment the oil companies have taken great pains and much trouble, which we appreciate, to put forward a picture that certainly, whatever may be said of any other evidence to come, has much probative force. Yet surely you cannot take a couple of phases of an industry and stress that and say "Now there is the picture." Surely there is some way. We are very much concerned with crude as the very starting point. If we ignore any of its phases, I do not see how you can make any answer about the consumer, just because you have whittled off or added something on any intervening operation?

A I find that it is very difficult.........

Q So you probably prefer to defer the whole thing?

A I would wish if it were possible to defer it, because it is a very elaborate development that will require a good many hours to get the logic of the thing, the sequence of movements and developments. As I say, Mr. Cottle and I have spent considerable time talking about it, accumulating figures, and we have more figures on the way, and we hope

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to be able to give you an answer on the mechanism and its operation.

Q Well, we will leave it there, Doctor?

A Thank you.

Q We hope that the period you are away from us will be a pleasant one, and you will come back to us full of information that will be helpful?

A Thank you.

THE CHAIRMAN: Mr. Frawley, you suggested a conference tomorrow. I want to speak to Mr. Harvie about that. Mr. Harvie, I see no possibility of your witnesses being finished tomorrow?

MR. HARVIE: None, Mr. Chairman.

THE CHAIRMAN: I was wondering if it would suit their convenience to go to Banff or somewhere for a little relaxation from this tiresome business on Friday, or whether the half-day would be worth while to you, since they will be here till Monday anyway?

MR. HARVIE: You mean, whether Saturday will be of any use to us?

THE CHAIRMAN: No, what I was suggesting was, we have tomorrow in which to hold a conference which perhaps we think will save us all time in the end. It would only leave us half a day before this week-end, and Major Lipsett and I were speaking about it and we wondered if it would suit your convenience better to go away for the half-day, or at least for the whole week-end, starting tomorrow, or whether you would prefer to come back for the half-day? We will suit your wants. We are very willing to sit because we think we can finish our conference in the morning.

Dr. J. W. Frey

MR. HARVIE: Under those circumstances, do you propose we sit in the afternoon?

THE CHAIRMAN: Tomorrow afternoon, or my feeling was that if your people wanted to go away for the long week-end, we would not insist on their remaining just to be here the two hours with us.

MR. HARVIE: Might I just have a moment?

THE CHAIRMAN: Yes, certainly.

MR. HARVIE: That will be perfectly all right.

THE CHAIRMAN: Which do you prefer?

MR. HARVIE: Adjourn till Monday.

(At this stage the Hearing was adjourned till 10:30 a. m. 10th July, 1939)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 10th, 1939

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WITNESS:

Alfred Herbert Miller, Recalled.......10,828
Recalled.......10,893

Francis Craig Dempsey, sworn..........10,858
Recalled.......10,869

EXHIBITS

EXHIBIT 459
Book entitled "Economics of the Petroleum Industry" by Joseph E. Pogue.................................. 10,792
and.................................. 10,832

EXHIBIT 460
Letter produced by the witness Miller from the State of Montana Equalization Board to Mr. James W. Johnson, dated July 7th, 1939......... 10,831

EXHIBIT 461
Statement and Telegrams produced by the witness Miller in reference to the Domestic and Export price of gasoline in the State of Montana......... 10,834

EXHIBIT 462
Dominion Bureau of Statistics Publication produced by the witness Miller, showing petroleum and natural gas production in Canada March, 1939............................ 10,844

EXHIBIT 463
Volume 2-A of the British American Oil Company presented by the witness Mr. F. C. Dempsey..................... 10,859

EXHIBIT 464
Copy of the National Petroleum News under date June 28th, 1939............... 10,868

ALFRED HERBERT MILLER,

having been recalled, examined by Mr. Harvie, said:

Q MR. HARVIE; Mr. Chairman, earlier in Mr. Miller's evidence it was suggested we would like to present additional facts in connection with places in Montana and with your permission I would ask Mr. Miller to give an outline of that and we now have our witness here who made the personal investigation?

A Dealing with the importations from Montana and also the total importations into Canada, we pointed out that there were 21 million gallons imported into Canada in 1937; 73 million gallons in 1938 and we estimated 100 million gallons for 1939; whilst the Commission Counsel does not consider the portion entering Alberta of any great consequence, nevertheless, this 100 million gallons of gasoline imported into Canada would mean additional throughput through Canadian refineries of 166 million gallons of crude oil, which would create increased payrolls for the benefit of all.

Q Just on that, is the percentage coming into Canada approximately the same as into Alberta?

A Well it was said there was 13% came into Alberta and I think 100 million gallons was approximately 1/7th of the total consumption in Canada based on the 1938 figures.

Q THE CHAIRMAN: That 166 million gallons is for what period?

A That means 166 gallons of crude oil to make that 100 million gallons of gasoline.

Q That is for what period?

A For one year, sir.

Q MR. HARVIE: 1939?

A 1939.

Q THE CHAIRMAN: 1939, and that came in at what point?

A The 73 million gallons.

Q It is not all from Montana?

A No sir. The 73 million gallons in 1938 came into Alberta of which we estimated or we have by figures rather, of that amount 11,816,006 gallons came into Alberta in 1937. In 1938, 15, 266,517 gallons came into Alberta and we estimate for 1939 total importations will be approximately 100 million gallons and I also-----

Q MR. HARVIE: Into Canada as a whole?

A Into Canada as a whole, and we also feel if the present price of the Montana suppliers is as it is today that the Alberta portion of that 100 million gallons will increase very considerably over the portion which was shipped in.Of the 73 million gallons which was shipped into Alberta in 1938 in connection with the figure we gave for Montana importations into Alberta of 15,266,517 gallons----

Q MR. FRAWLEY: What is that please, 15 million and what?

A 15,266,517 gallons in 1938.

Q Where did that figure come from, I never saw that before, where did that figure come from?

A That is the figure which we gave, Mr. Frawley, last week.

Q I thought we had a figure of 13 million odd?

A On Chart No. 3.

Q MR. HARVIE: Chart No. 3, Exhibit "444", it is on your Chart, Mr. Frawley, Page No. 3.

Q MR. HARVIE: That 15 million odd that you

are stating that came into Alberta during 1938, according to the evidence of Mr. Appleton, a part of that possibly went to Saskatchewan or other Provinces?

A According to what Mr. Appleton says but that I think might be further considered later on.

MR. FRAWLEY: I know, but what I at least would like to be clear about we have it from Mr. Appleton, that these are tax paid figures, there is no use of getting into an argument over it now, but I would like to know where you got the 15 million as against Mr. Appleton's 10 million?

A 15,266,517 gallons came into Alberta from Montana in 1938.

Q MR. HARVIE: Through the Customs' figures?

A That is according to the figures which I have.

Q MR. FRAWLEY: Perhaps we are not looking at the right Chart, 15,266,517 gallons imported into Canada from Montana fields, that is all right, and you have some other way of telling us what goes to Saskatchewan?

A Imported into Alberta, Mr. Frawley.

MR. HARVIE: I think it is quite clear, and may I see if I can give some information on that; the information is that there are 15,266,517 gallons imported from Montana to Alberta in 1938; Mr. Appleton's fiures show that the tax paid figure, consumed in Alberta, is 10,288,726. Now the other is tax free products perhaps or shipped to some other Provinces through Alberta.

MAJOR LIPSETT: What was that figure, Mr. Harvie.

MR. HARVIE: Of the 15 million odd that came into Alberta there were 10,288,726, if I am reading my

own figures aright.

MR. FRAWLEY: I have just one more question, where does the 15,266,517 come from and I will be satisfied?

A That is the actual gasoline shipped out of Montana.

Q Yes, but what is the source of your information, where did you get that figure, that is what I am concerned with at the moment so that we can check it?

A We checked these figures, Mr. Frawley, with the actual Government figures, the Government records, in the State of Montana and in connection with that I have a letter here that I received dated July 7th from the State of Montana, the Board of Equalization, which letter is signed by the Secretary, R. A. Neil. The reason I want to read this letter to you is that figure of 15,266,517 gallons is only gasoline. Therefore all other products such as distillate, deisel fuels or any other light oil products coming into the Province of Alberta or into Canada from Montana is not included in that figure of 15,266,517 gallons. In this letter of July 7th, the State of Montana Board of Equalization say,"Mr. James W. Johnson, c/o A. H. Miller, Palliser Hotel, Calgary,

"Dear Sir:

" Please be advised that "records in this office show the following number "of gallons of gasoline exported into Canada by "the various refineries operating in the State of "Montana during the years of 1937 and 1938; 1937 "11,816,006 gallons; 1938, 15,266,517 gallons mak-"ing a total for the two years of 27,082,523 gal-"lons. State Board of Equalization, R.A.Neil, "Secretary."

(LETTER PRODUCED AND HERE MARKED EXHIBIT "460")

A. H. Miller

THE CHAIRMAN: The book Exhibit "Economics of Petroleum Industry," is Exhibit "459".

MR. HARVIE: That is the one that was filed by Doctor Frey.

MR. FRAWLEY: Doctor Pogue's book.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: These have not been converted into Imperial gallons. These are pretty obviously wine gallons?

A I imagine so, Mr. Frawley.

Q It works out to 12,750,000 gallons roughly?

A I have not asked that question of them, but I assume they are wine gallons, and we will confirm that. We also submitted prices showing importations from the State of Montana into the Province of Alberta were being dumped into Alberta at lower prices than the domestic prices prevailing in the State of Montana. I would now like to submit a wire that I sent to Mr. James W. Johnson, British American Oil Producing Company, at Shelby, Montana, under date of July 6th. It reads as follows:

"Please secure official price lists, refineries and
"companies Montana in tank car, tank wagon and
"jobbers prices, any method of delivery covering
"June 5th, 6th and 7th. If unable to secure official
"price lists, obtain what confirmations you can.

"Signed,

" 'A. H. Miller'"

Mr. Johnson replied on July 6th, a wire to A. H. Miller, B. A. Oil Company, Calgary:

A. H. Miller

"Regular grade tank wagon prices quoted around "Montana averaged between 19 and 20½¢ including "6¢ tax, although a few place higher and some "lower. Third grade general about 1¢ under "regular grade and it is noted that most service "station dealers receive 4 to 4½¢ retail profit "above tank wagon price on regular and 3 to 3½¢ "on third grade. Jobbers tank car prices vary "somewhere between 2½ and 3¢ under tank wagon "prices, and competitive prices quoted there "is no such thing as established refinery prices "in Montana or established retail or tank wagon prices "there Prices depend on local situation mostly. "Cannot secure any official price list from any "companies as there are no such lists given out "by any company, but these figures are substantially "correct."

Now, I wish to submit with those two wires - I might say that I made a statement here that explains the difference in prices which is as follows. I say domestic and export price of gasoline in the State of Montana. A comparison of prices obtained in Montana shows that while local refineries are obtaining a price of from 10.5 to 11.5 per wine gallon for standard grade leaded gasoline to local jobbers, they are willing to export the grade product into Canada at a price ranging from 7 to 8¢ per wine gallon. A difference of 3½ to 4½¢ per wine gallon. Similarly local jobbers have to pay from 8½¢ to 9½¢ per wine gallon for white gasoline as against a price of from 5½¢ to 8¢ per gallon when the same product is sold for export

to Canada, a difference of 3 to 4¢ per wine gallon.

MR. HARVIE: Have you got those Exhibits there?

Q I think if you go ahead and read down the statement?

A It might be better to follow if they had it.

MR. HARVIE: I have only one copy.

THE CHAIRMAN: Are you putting those in as an Exhibit?

MR. HARVIE: Yes, Mr. Chairman, there are 4 sheets.

(DOCUMENT IN QUESTION NOW MARKED EXHIBIT "461")

Q THE CHAIRMAN: Have you copies of that last letter?

A No, sir, that is the original. We did not make copies. Now, if you turn over there to gasoline prices, Domestic, State of Montana, you will note the tank wagon in the State of Montana according to that wire and according to the information we have already submitted, the standard grade "Q" Brand, wine gallons ranged from 13¢ minimum to 14½¢ maximum, and if you compare that to Imperial gallons, it is 16¼¢ to 18.12¢. That is giving the low and the maximum according to quotations being made in Montana. That is July 6th. White gasoline, wine gallons, 12 to 13.5, and compare that to Imperial, it is 15 to 16.87. Jobbers prices based on 2½ off the tank wagon or 3¢ maximum, standard grade "Q" Brand, wine gallons, 10½ to 11½¢. Imperial gallons 13.12 to 14.37. White gasoline, wine gallons, 9.5 to 10.5. The jobbers prices we gave the other day. Convert that to Imperial, 11.87 to 13.12. These prices are exclusive of State taxes of 6¢ per wine gallon, and also sales tax .

and duty.

Q MR. FRAWLEY: That should be State and Federal tax, I think, Mr. Miller, 6¢ in all?

A A maximum of 6¢ all taxes.

Q Yes, part Federal and part State?

A Now when we compare that first tank wagon price there of standard grade "Q" Brand gasoline, the lowest price is 16¼¢, and our lowest price today in Calgary is 15½¢ per gallon. In other words, our prices for "Q" Brand gasoline of a superior specification to the "Q" Brand gasoline as sold in Montana, is, the tank wagon price in Calgary is ¾¢ per gallon below the lowest price quoted in the State of Montana, which I think further adds to the confirmation where we gave you last week that for the three years the prices in Alberta have been lower than the tank wagon prices in Montana. I say our tank wagon prices are lower than the tank wagon prices in Montana.

Q MR. PLOTKINS: The 16½¢ or the 15½¢ tank wagon, includes 8% sales tax, doesn't it?

A That is right.

Q So that must be deducted to arrive at a comparison?

A Yes, you could. At the same time, the fact remains, that leave the sales tax out of the question and the tank wagon price in Calgary today is ¾¢ per gallon below the lowest tank wagon price in the State of Montana, and as you know, the "Q" Brand in the State of Montana does not have the same relationship in regard to quality, octane and so forth, as the product being sold in Alberta.

Q MR. FRAWLEY: Would you deal with the pooled freight rates that I brought up the other day?

A. H. Miller

A No, sir.

Q You cannot deal with that?

A I don't know a thing about it, Mr. Frawley.

Q That throws the whole thing out if there is anything in it?

A I do not think so. This is the tank wagon prices in Montana.

Q If the tank wagon prices are based on pooling the freight from the refinery, and in Alberta it is not, then there is no comparison?

A I would say it makes it worse if they are pooling their freight in the State of Montana. They are able to operate more cheaply than we are in the Province of Alberta.

Q I am only concerned with getting before the Commission all the facts so that a comparison can be made. I am not suggesting at the moment that our prices are not better than Montana. But I say let us get all of the factors in Montana just.............?

A I want to impress that upon you, Mr. Frawley, and the Commission because I have judged that the main point as far as you are concerned, is that the prices in Alberta are too high, and when you consider our cost of operation in the Province of Alberta compared with the State of Montana, and then find that we are selling gasoline, of equivalent measure, at $\frac{3}{4}$¢ a gallon less than their lowest price, I cannot see that our prices are too high.

Q I do not want to get discussing it now. But if you are taking the average price in Montana, then why not take the average price in Alberta. Why compare the lowest Calgary tank wagon of 16½ and compare that with the pool prices down there?

A I am quoting on a basis of 15½¢ Calgary, and these prices

A. H. Miller

of $16\frac{1}{4}$ to 18.12 of refinery base prices in Montana.

Q Are these the refinery base prices? I suggest to you our information is there are no refinery base prices in Montana?

(Go to Page 10,838)

A These are the tank wagon prices being quoted in the State of Montana ranging as low as 16¼ cents and as high as 18.12 cents.

Q But they are delivered prices I am told by Mr. Cottle who was down there personally checking it over?

MR. HARVIE: Let Mr. Cottle say. Mr. Miller says he does not know.

Q MR. FRAWLEY: That is fine, that is perhaps why I should let Mr. Miller finish up but it seems to me we should call attention to these things as we go along. If your comparisons are exact, of course the Commission wants them but I guess I will have to bring somebody up from Montana.

Q MR. PLOTKINS: These ranges of from 16¼ cents to 18.12 cents are at the refinery points?

A That is the variation in the State of Montana.

Q I know, but is that at the refinery point?

A Not necessarily.

Q MR. FRAWLEY: Oh, delivered prices?

A Well, that is the delivered price at Calgary 17½ cents.

Q Where is the delivery price?

A Our prices are delivered right into the service station.

Q Take Calgary and Red Deer and Provost and compare them?

A As I said the other day, Mr. Frawley, in this Province of Alberta, when you come to boost or compare rather the outside prices and compare the inside prices, that is the Calgary price, the only thing that is added to the Calgary price is the freight we pay the railway, which freight is higher in Western Canada by far than any

other freight in Eastern Canada or freight for the same products.

Q This is rather a disorganized cross-examination and I will stop.

A I do not think so, Mr. Frawley.

Q I am accusing myself, Mr. Miller of a rather disorganized cross-examination, so I will let you carry on.

A The Province of Alberta, as you know, must ship to a greater distance than any shipper in the State of Montana within the State bounds of that, within the bounds of that State rather, therefore, our distances are greater and the further we go the more it must cost the consumer when the freight is added unless the freight rates are reduced we have to add that freight.

Q MAJOR LIPSETT: In Montana, Mr. Miller, is the difference between 16¼ and the 18.12, does that represent freight?

A I imagine it does, Mr. Commissioner. I think that is the difference in the price because their distances are shorter and I would say that that price possibly would be, may be even in the State of Montana 16¼ and as you get further out there it would range up to 18.12.

Q MR. FRAWLEY: Now let us be clear --

Q MAJOR LIPSETT: Would that indicate, subject to what Mr. Frawley is just going to ask you, would that indicate that the refinery price in Montana at the refinery is 16¼ cents as against 15½ in Calgary?

A No, sir, that is the tank wagon price in the State of Montana; it is not the refinery price; the jobbers buy in the State of Montana from 2½ to 3 cents below

that tank wagon price; they have no such thing as a refinery door price, a jobber's price, or anything of that kind. They only have a tamk car price and a tank wagon price.

Q I really meant that but what I was trying to put to you, Mr. Miller, was this, does $16\frac{1}{4}$ cents represent in Montana the tank wagon price, where there is no railway freights, similar to the $15\frac{1}{2}$ cents in Calgary where there is no freight?

A I think so, sir, and that is the reason of that range from $16\frac{1}{4}$ to 18.12. Well, Mr. Frawley, they cannot have a refinery any other point.......

Q MR. FRAWLEY: I was just talking to Mr. Cottle, I was not trying to interrupt you.

Q THE CHAIRMAN: What is your comparable point with Calgary, you have a refinery at Calgary, what is the comparable point in Montana?

A Well, I would say you could take Kevin, take Great Falls, maybe take Butte.

Q MR. HARVIE: Sunburst?

A Take Helena and I think you will find, sir, that these prices which I mentioned there are in effect.

Q THE CHAIRMAN: They are refinery points?

A They are refinery points, yes.

Q And you say when you stacked them up for Calgary against Q-brand, that they are of a higher price than we can get, that is they pool their freight, then that just shows a greater difference?

A Yes, no ----

Q In favor of what the refinery in Alberta is doing?

A That is right, sir.

Q MR. HARVIE: You just stated there was a differential in quality too, so far as the Octane rating is concerned, can you give us any figures on that?

A Well without going into the distillation range, because I have not the distillation range figure in front of me but speaking of Montana it, I think, adds more to the price of gasoline, that is from comparing one grade with another because it determines the amount of lead which is in there, that Q-brand gasoline in the State of Montana is 68 to 70 Octane; the Q-brand gasoline which we are selling in Calgary, known as our Nevr-Nox gasoline, is 73 Octane.

Q THE CHAIRMAN: Nevr-Nox?

A Nevr-Nox, sir, Nevr-Nox is known as our Q-brand which is a trade name, a technical name in the Province of Alberta or in Canada.

Q MAJOR LIPSETT: When you mentioned the Montana refined gasoline, does that include such gasoline as the Texas Company brings in here?

A Yes.

Q That 68 to 70 Octane?

A Yes, that will cover, it covers the standard brand or Q-brand of gasoline of any company refining in the State of Montana.

Q THE CHAIRMAN: Where do you get the letter "Q" from?

A Oh, it is really a company, really a name that has been more or less adopted by certain oil companies to designate one such as Nevr-Nox grade as against an Ethyl grade.

Q MR. HARVIE: It is the so-called Standard Brand?

A Yes, the Standard Brand.

MR. HARVIE: And that is the usual term, the Imperial uses the same term and other companies.

Q THE CHAIRMAN: Now what would the Standard Brand be with respect to the Imperial, Three Star or What?

A Three Star, sir.

Q MAJOR LIPSETT: And what is the comparable product of the Texas Corporation, what do they call it, Mr. Miller?

A Well they used to call their gasoline Texaco, that is their Standard Brand and their Ethyl brand was "Texaco Ethyl". Today their Ethyl brand is known as Sky Chief. Mr. Frawley, I have, I would like to, if it is in order, we go pretty well by the Dominion Bureau of Statistics figures in Canada covering the total sales of all companies of the industry by-products and our Dominion Bureau of Statistics figures cover the Province of Alberta for 1938 by months, showing the total gasoline sold as 73,725,000 gallons for the year 1938 and I was wondering if they sometimes get confused between what is exported maybe from the Province.

Q MR. FRAWLEY: If who gets confused?

A I was wondering how they got these figures. Do they get these from your Province?

Q You mean Exhibit "466" which Mr. Appleton put in?

A No, I am referring to the Dominion Bureau of Statistics figures which are available to anybody at Ottawa.

Q Oh, as to how they get them?

A Yes.

Q I cannot say. I do think they get some information from our tax people because that is very definitely an incorrect figure?

A Well the Dominion Bureau of Statistics figures for 1938 show 73,725,000 gallons of gasoline sold in the Province of Alberta.

MR. HARVIE: As against Mr. Appleton's figure of 78,952,230 gallons.

MR. FRAWLEY: Mr. Appleton says they certainly get those figures from us and if they are talking about the same kind of products and they are not excluding these heavy fuels which are not taxable in other provinces, and if they are not short a month, why then there will have to be some further explanation.

A Well that is what they are.

Q They are what?

A Those are the figures and here they are.

(Produced to Mr. Frawley)

MR. HARVIE: That might be put in as an Exhibit and it would be available then to be looked at.

MR. FRAWLEY: It includes Diesel oil to March 31, 1938, that is the first thing that has to be taken into account in the Alberta figure, but it does not include it after the 31st of March. It does not include it for 9 months.

MR. HARVIE: Do you wish to file that as an Exhibit, Mr. Miller?

A Well, if Mr. Frawley wishes.

THE CHAIRMAN: Are you filing that?

MR. HARVIE: Yes, we may as well put it on the record now that it has been referred to.

(DOMINION BUREAU OF STATISTICS PUBLICATION PRODUCED AND MARKED AS EXHIBIT "462".)

Q THE CHAIRMAN: What is it?

A The Dominion Government Bureau of Statistics.

THE CHAIRMAN: For what year is that?

MR. FRAWLEY: I will describe it to you, it is a monthly publication, Petroleum and Natrual Gas Production in Canada, March 1939 and Gasoline Sales in Canada, February 1939, that is the title of this monthly report and on Page 3 of the report there appears the figure of 73,725,000 gallons under the heading of Alberta and there is a letter "B", which letter "B" explains that the figure includes Diesel oils to March 31st, 1938 and presumably not for the following 9 months and that might make the difference. Also attached to this is a monthly publication of the same Bureau, the Petroleum Products Industry in Canada for 1937.

WITNESS: It would include the Diesel fuels for those three months and would make the gasoline sales less.

Q MR. FRAWLEY: You are comparing it against Mr. Appleton's figure and Mr. Appleton's figure plainly includes everything. Mr. Appleton's figure of

78,952,230.25 gallons is everything that is taxable in this Province, only excluding the non-taxable to the Dominion Government and so on.

MR. HARVIE: It excludes for record purposes the sales to the Dominion Government, the sales of varsol , sales of coal oil and sales of heavy fuel oil.

MR. FRAWLEY: Heavy fuel oil, heavy burning oil, for locomotives, that is right.

WITNESS: We have with us Mr. Dempsey who made the survey and secured the various quotations in the State of Montana for us and I would like to call him.

Q MR. FRAWLEY: Mr. Miller, before you go, I would like to see if I can be a little clearer about these Montana prices and I will take the City of Great Falls, do you say that the tank wagon price at, no, you see, what is this, 16¼ Imperial Gallon, Mr. Miller, for tank wagon on Standard gasoline, State of Montana?

A 16¼ cents.

Q To 18.12?

A Is the converted Wine Gallon price in the State of Montana on Imperial figures and is the lowest price quoted today on standard brand gasoline in the State of Montana, tank wagon.

Q And that is the information which arises from Mr. Johnston's telegram to you of the 6th of July?

A Correct.

Q All right. Now, Mr. Johnston does not say what places he

went to to get those prices, he says "around Montana", that is as specific as he is?

A That is right.

Q From the telegram, he says they average between 19½, which includes 6 cents tax and that is where you got ---

A 19½ and 20½.

Q And that is where you got the 13 to 14½?

MAJOR LIPSETT: It is not 19½, it is 19.

MR. FRAWLEY: He says between 19 and 20½, where have you got that information to put into you statement or your tabulation, that 13 to 15.5 per gallon?

A As I say at the bottom of this statement, these prices are exclusive of States taxes at 6 cents for Wine Gallon and also Sales Tax and Duties; in other words the 6 cents ---

Q MR. FRAWLEY: That is abviously where you got it, that is where your 13 and 14½ come from?

A That is right.

Q Now you do not know where those prices are, you say these are posted tank wagon prices in a number of Montana towns?

A Those are the average prices over the State of Montana.

Q Well but what we call the posted tank wagon prices are Calgary 16½, Edmonton 19½ or whatever it is, that is what it is, is it not, Edmonton is 19?

A I imagine so, Mr. Frawley. I tried to get an official price list but as you notice Mr. Johnston says there are no official price lists put out. Simply a posted tank wagon.

Q I agree with you, so it is obvious then, if we have a

price, it is obvious then that these prices include freight from wherever the goods come from.

A These are the average prices. I would say in Montana, they run from 13 to 14½ cents, a wine gallon.

Q Yes, and we can very properly call them average delivery prices?

A I think so.

Q Then they include freight of course. Now, then, the price at Great Falls, I put it to you, under the system of delivery prices in Montana includes freight although there is a refinery in Montana, I mean although there is a refinery in Great Falls, the Home Company has a refinery in Great Falls and let us suppose that 13 or let us say 14 is the Great Falls price, perhaps Mr. Johnston took Great Falls, supposing 14 was the Great Falls price, that would include freight and this is why, Mr. Miller?

A What would be the difference.

Q Well ---

A Our price is 15½ f.o.b. Calgary and all we have is the freight from the refinery of three cents across to our bulk plant.

Q It does not include any freight and as I say I want to see if I can escape, if I may, going to Montana to bring somebody here, a marketing man, who will explain this delivered price, delivery price structure which prevails in Montana?

A Well, Mr. Frawley, I have given you all the information I can and the source of that information.

Q Yes?

A And no doubt the authorities in the State of Montana will

be very glad to confirm this for you.

Q THE CHAIRMAN: To be clear on that, we will take Great Falls, Montana.

A Yes.

Q And I do not care how the gasoline got there but what I want to know is, what is the tank wagon price of the Q-brand gasoline in Great Falls, Montana?

A It is 13 to 14½ cents.

Q MR. FRAWLEY: No, there must be a price for Great Falls. If we had the National Petroleum News we could tell, this is the National Petroleum News for May 10th, 1939, and that may be, let us take that one and we will give it to you in a second, here it is, sir, and this is all the information contained at Page 46 of Exhibit "273", the National Petroleum News --

THE CHAIRMAN: Page 46?

MR. FRAWLEY: Page 46 of Exhibit "273" which is the N. P. N. of the 10th of May of this year, 1939. Now we find at Great Falls, Montana, that the dealer price for Conoco Brand, these are postings by the Continental Oil Company and that is described as regular grade so perhaps we need not bother with the trade name or anything like that, the regular grade is 12 cents and Billings is 12 cents and Butte, in other words it is exactly the same, although those two points are a considerable distance apart.

THE CHAIRMAN: Great Falls is 12 cents?

MR. FRAWLEY: Great Falls is 12 cents.

THE CHAIRMAN: That is the United States gallon?

MR. FRAWLEY: Yes, and Billings, Montana, is 12 cents. I think it is of importance to note that.

THE CHAIRMAN: And putting that into Imperial Gallons?

MR. COTTLE: 14.4.

MR. FRAWLEY: 14.4, Mr. Chairman.

WITNESS: No, just a minute ---

MR. FRAWLEY: Yes, 14.4 and the gasoline tax is 6 cents, which makes the price, the tank price 14.4 plus 6 or 20.4, no, it is 21.6 is the dealer price at those two points in Imperial Gallons. Did I say the dealer price, I meant the pump price, the retail consuming pump price.

THE CHAIRMAN: One is tank wagon and the next is pump, are they the same?

WITNESS: No, sir, I was just talking of tank wagon price.

MR. FRAWLEY: I am quite confused when I am talking of pump price, so just strike that out.

THE CHAIRMAN: I want to get the comparison, Great Falls, Montana as against Calgary, Alberta.

MR. FRAWLEY: I am quite confused when I say "pump" price. Now 14.4 cents, we simply add the texes of 7.2.

THE CHAIRMAN: Now wait a minute.

MAJOR LIPSETT: Why 7.2?

THE CHAIRMAN: This is Great Falls. Now we are talking about the Q-brand, let us go slowly and get the facts.

MR. FRAWLEY: Well starting at the beginning,

sir, it is 12 cents per U. S. Gallon is the tank wagon price in the City of Great Falls, Montana. Now let us add the tax first, Mr. Chairman, and I think that is the best thing.

WITNESS: Not necessarily, Mr. Frawley, because it is shown here, my statement is less tax, less sales tax and less duty. It is the Wine Gallon or the Imperial Gallon in Montana.

THE CHAIRMAN: All right, but when you reach Imperial Galloms let us have it without any tax.

MR. FRAWLEY: Then, Mr. Chairman, I have these figures for you. You can take the tank wagon without tax and it is 14.4 in Imperial Gallons.

THE CHAIRMAN: All right, now, just a minute, that is the tank wagon 14.4?

MR. FRAWLEY: 14.4 tank wagon. Then if you want it with tax we will add, with tax I will tell you what the calculation is, we simply add 6 to the 12, that is 18 and converting that to the Imperial Gallons and it is 21.6.

THE CHAIRMAN: Now with tax it is 21.6.

MR. FRAWLEY: That is the tank wagon price, the price which the retailer pays in Great Falls.

THE CHAIRMAN: That is the retailer price. Now all right, we come to Calgary, for Q-brand, and that is right, is it, retail price tank wagon lots?

MR. FRAWLEY: Yes.

THE CHAIRMAN: 14.4 without and 21.6 with tax at Great Falls, Montana. Now let us have Calgary.

MR. FRAWLEY: We can go at once to Calgary, $16\frac{1}{2}$ less 1, that is $15\frac{1}{2}$, that is the undivided dealer's price and then he pays a tax to the supplier of 7 cents or $22\frac{1}{2}$ cents he pays before he adds his spread on, to charge to the consumer.

THE CHAIRMAN: Now keep your comparisons clear.

MR. FRAWLEY: Yes.

THE CHAIRMAN: As I understand you, the tank wagon price in Montana without tax for Imperial Gallon, Q-Brand, is 14.4?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And with tax 21.6. Tank wagon in Calgary for the same product in Imperial Gallons is 15.5 and with tax 22.5?

MR. FRAWLEY: 22.5, that is correct, sir. Now then the first thing I want to call your attention to, Mr. Chairman, is that the tax there is .2 or 2/10ths of a cent greater than ours. Now the next thing that I have been discussing with Mr. Miller is that the price in Great Falls is a delivered price. As you say, you were not concerned with that but I want to make a point, that the price in Great Falls is the price which includes some freight, whereas the price in Calgary excludes any freight; in other words there is one refinery in the Province of Alberta, one refinery point and in Montana there are several.

MR. HARVIE: And Great Falls is one.

MR. FRAWLEY: Great Falls is one and Sunburst-made gasoline comes in there. Cutbank-made gasoline goes

in there and therefore you have no refinery base starting point in Montana like you have in Calgary and that is all I wanted to make clear.

MR. HARVIE: Sunburst comes into Calgary.

MR. FRAWLEY: And that is the only reason why we say that the prices are not strictly and exactly comparable, the two structures are built up on different bases and that is all and it may work out we are paying less for our gasoline down there and I am not going into that point right now but all I am saying is that our starting points are not exactly the same.

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A Mr. Frawley, what date is that National Petroleum News?

Q 10th May, 1939.

A And this is July 10th?

Q July 10th. I would not be using it if I had a more recent one.

A I think you will find the prices have increased, making that price 1 cent higher than is shown in the National Petroleum News of May 10th.

Q We will get the last one. We won't stop there.

MR. HARVIE: We have sent out to get one.

MR. FRAWLEY: This 14.4 you gave us from the May journal is comparable with the figurew of 16.5 and 15.5, I take it. I have 16¼ to 18.2, I got that from you, didn't I?

A Yes, Sir.

Q The 16¼ and the 18.12, that is what Mr. Miller says is the average tank waggon price around Montana, to keep to Mr. Johnson's language?

A In Imperial gallons?

Q In Imperial gallons, that is to-day. As against a figure that I gave you of 14.4 on the 4th of May, we will take that, and we will check that as to whether it is up to date - at Great Falls, not around Montana but at Great Falls. As Mr. Cottle puts it to me to make a comparison exact you have got to deduct that average freight. That is all we will have to deduct from the Montana prices because in Calgary the 16½ is the starting point, or 15½ to the undivided dealer is the starting point. It is just the same as if we took Brooks and Red Deer and Bassano and Cochrane and a few points and made a trangle of it and then found the average price there. Because we find there is

a modicum of freight in these posted prices and I say there is a modicum of freight in each of these Montana prices and the freight must be deducted?

A I said there was, Mr. Frawley. I said the lowest price in the State of Montana was 16¼ cents per Imperial gallon and the highest price was 18.12 cents per gallon.

Q Let us take your lowest, and taking your figures as absolutely accurate and exact, and I would not say anything to the contrary, but this 16¼, the lowest, that still includes some freight, and the Calgary 15½ includes not a bit?

A That is not right, because whilst you say that the Calgary 15½ cent price does not include any freight it does include freight from the refinery to the buyer or to the distributor rather, which is ourselves or other companies, averaging 3/10 cents per gallon switching charge in Calgary, which is freight. In other words, our price is 15½ cents in Calgary by tank waggon into the station there and a rate of 3/10 of a cent per gallon from the refinery to the marketing branch. I imagine it is the same down there.

Q In other words, the Calgary tank waggon price is delivered into his retail tanks?

A The tank waggon price is exactly that anywhere on the American continent, delivered in the tank of the dealer.

Q Oh, yes, but in Edmonton it is also the delivered price and still the difference is just exactly the freight to move it into the warehouse in Edmonton in tank car quantities and costs 3.2 cents, or something of that sort. You find the Edmonton price by simply adding 3.2 cents to the Calgary tank waggon price?

A That is right, Sir, over which we have no control.

Q That is true, but I am just striving, as I know you are, to get before the Commission the prices, two sets of figures as exact as we can, so that they can make a comparison?

A That is all I am trying to do. In other words, I want to make this statement in connection with these prices compared to the Calgary prices. In the first place there is a greater volume of business in the State of Montana than there is in the Province of Alberta. And, as you will note later on in the evidence, there is a cost possibly in erecting a refinery in Calgary as against erecting one in the State of Montana of maybe 40% higher in Canada than it is there. Pay-rolls and other requirements are comparatively higher in Calgary than they are in the State of Montana and notwithstanding all that our price in Calgary, that is the tank waggon price in Calgary, is three-quarters of a cent lower than the lowest price for standard brand gasoline in the State of Montana.

Q MR. COMMISSIONER LIPSETT: Is that borne out by this figure in Great Falls?

A Yes, Sir. Mr. Frawley quotes you there from the National Petroleum News of May 12th. At Great Falls, to my knowledge, as at July 7th the only difference is 1 cent and it makes the price at that time 12 cents.

Q If you add 1 cent to the Great Falls price, is that up to 15.4?

A Yes, Sir.

Q Instead of 16¼?

A No, if your price is 1 cent higher there the conversion will bring it up to 16¼, I think.

MR. HARVIE: 15.6. I think we are just wasting

time trying to compare these prices. We will get up-to-date prices and then we will know the comparative figures.

MR. PLOTKINS: There is another thing that the Commission should not lose sight of in these two figures The comparisons are not accurate. The one, the Calgary figure, includes 8/10 of 1 cent Federal tax and the Montana figure does not include that tax. The 6 cent tax there is 5 cents State plus 1 cent Federal tax.

MR. FRAWLEY: It is 6 cents altogether?

MR. PLOTKINS: If it is 6 cents in Montana that includes 1 cent and the 8/10 Cents Federal tax in Canada should be deducted.

A It is all reckoned up and puts the Calgary still lower.

Q Yes, if the 8/10 cents sales tax is deducted?

A Instead of 15½ it would be 8/10 cents lower than that.

Q Yes.

A I would like to have that National Petroleum News for a minute. Now, you see, Mr. Frawley, in the National Petroleum News which you referred to there, May 10th, the price in Great Falls at that date showed 12 cents per gallon. The price at Helena showed 13 cents per gallon.

Q The price at Billings shows 12 cents a gallon and the price at Butte 13½ cents?

A The price at Butte, Montana, 13½ cents. So that they vary.

Q Sure.

A They are not all the same.

Q MR. COMMISSIONER LIPSETT: Is that 13½ cents for Butte?

MR. FRAWLEY: 13½ cents for Butte.

A At May 10th. It does not make any difference about freight or any other item of charge except that we have an added cost in Canada inasmuch as in the first place we have a

sales tax there to contend with, which is not shown in their price. Their price is based at Calgary and the only difference that the consumer pays in the Province of Alberta is the freight charged to us by the railway companies to move those products to destination.

Q MR. COMMISSIONER LIPSETT: I think the point Mr. Frawley was putting to you, Mr. Miller, was this, that if you take Great Falls you presumably would deliver there to the dealer in his tank waggon in any event, even the Great Falls Refinery?

A Yes, Sir.

Q Now, I think the point Mr. Frawley was putting to you was that in the Great Falls price in addition to that delivery, which corresponds with delivery in Calgary, that in the Great Falls price it also includes a proportion of all railway freights in the Province?

A Well, I certainly would like to get clear on that because that is not my understanding.

MR. FRAWLEY: I cannot go any further. I put it to you as a suggestion. Mr. Cottle went down there and made an examination. We are going to go into it very fully, but I thought we might reduce the differences between us to just the minimum. We have, perhaps, done that. We cannot prove everything this morning. We will leave it just there.

THE CHAIRMAN: Do you want another witness?

MR. HARVIE: I think Mr. Dempsey might be called at the moment.

....

FRANCIS CRAIG DEMPSEY, having been duly sworn, examined by Mr. Harvie, testified as follows:

Q You are employed by the British American Oil Company?

A Yes.

Q What office do you hold with that company?

A Asphalt engineer.

Q For what territory?

A For Manitoba, Saskatchewan, Alberta and British Columbia.

Q Just what qualifications have you?

A Well, I have the degree of Bachelor of Science in Civil Engineering from the University of Manitoba, May, 1930.

Q How long have you been with this company?

A Since January 21, 1937.

Q And prior to that where were you employed?

A I was employed, I had several different jobs with the Department of Public Works in the Province of Manitoba, ranging from chain man to resident engineer on construction of highways of earth, concrete and asphalt.

Q What memberships have you got in any engineering organizations, if any?

A Well, I am a registered member of the Association of Professional Engineers of Saskatchewan and I am Associate Member of the Engineering Institute of Canada.

Q You were at the request of the company asked to proceed to Montana and investigate the prices at which gasoline could be purchased at various refineries in Montana?

A Yes.

Q Just when was that. When were you down there?

A I was down there on June 5th, 6th and 7th of this year.

Q Are you prepared to give that information in the form of a

brief?

A Yes, Sir.

MR. HARVIE: I would like to file, Mr. Chairman, what I have called Volume 2 (A), just to keep it in its proper place, from the British American Oil Company.

(BRIEF IN QUESTION IS NOW MARKED EXHIBIT "463".)

Q All right, Mr. Dempsey.

A Following is some information which I obtained in the State of Montana on June 5th, 6th and 7th of this year, the purpose of my trip being to establish that tank truck operators are buying various petroleum products in tank truck lots and for shipment into Canada from Montana refining companies at lower prices than Montana jobbers are paying these Montana refining companies for petroleum products in tank car or tank truck lots:

THE CHAIRMAN: Excuse me a minute. You are speaking of tank car and tank truck lots. Are the two terms synonymous, tank car and tank truck. They are not, are they?

A Well, I would think they were, Mr. Chairman.

Q MR. COMMISSIONER LIPSETT: A tank car is a railroad car.

THE CHAIRMAN: We have heard of the terrible difference between loading tank cars and tank trucks in times past.

A They are different articles, a tank car and a tank truck are different articles, but I understood you inferred that the price would be synonymous.

MR. HARVIE: My information is that there is just one set of prices.

THE CHAIRMAN: Whether it be tank car or tank

truck?

MR. HARVIE: Yes, in Montana.

MR. FRAWLEY: In Montana?

MR. HARVIE: It is different here.

A In mentioning Montana jobbers, reference is made to companies operating in Montana and having railway and storage facilities suitable for receiving shipments by tank car or tank truck of various petroleum products.

In mentioning tank truck operators, reference is made to individuals, partnerships or companies operating one or more tank trucks.

I called on several refining companies and attempted to obtain quotations on several petroleum products, these quotations being subject to shipment to Canada and in cents per wine gallon, tank truck lots, f. o. b. refinery. Following are the results of my interviews:

The Home Oil and Refining Company, at Great Falls, seemed to be suspicious of me and would give me no quotations.

Q MR. HARVIE: Can you tell me what operation each company carries on in Montana?

A Well, that company refines and they market and I believe they produce a certain quantity.

The International Pipe Line Company, at Sunburst, said that they did not handle any Canadian sales at their refinery and could not give out prices but stated that if I were to get in touch with the sales manager of the Texas Company in Calgary, arrangements might be made with him to purchase truck lots of petroleum products at the International Pipe Line Company refinery at Sunburst.

MR. FRAWLEY: I suppose that should be, the International Pipe Line Company, that is just the

International Refining Company?

MR. HARVIE: Yes.

MR. FRAWLEY: As long as the Chairman understands.

MR. HARVIE: Now, just what is the Big West operations. Can you give me that? As you mention these companies you might just cover the operations of each company in Montana.

A The Big West Oil Company in Montana are refining. I do not know whether they are producing or marketing. I am not sure. The Big West Oil Company of Montana, at Kevin, would not give me quotations but stated that their representative, Mr. Welch, who makes periodic trips into Canada, would be pleased to negotiate for sales of petroleum products for shipment into Canada by tank truck from their Kevin refinery. The Cutbank Refining Company at Cutbank is the next. They refine and they also have a gasoline pump out in front of their plant so I presume they are marketing also. They submitted the following quotations:

Third Structure Gasolene	- 5 1/2¢	per	wine	gallon.
45 Gravity Tractor Distillate	- 5¢	"	"	"
Diesel Fuel	- 3 1/2¢	"	"	"

The North West Refining Company - this is another company that refines, and I am not sure whether they produce or market. But they refine. They are at Cutbank and would not give direct quotations but the gentleman I interviewed informed me that high octane non-leaded gasoline could be purchased in the Cutbank area at from 6¢ to 7 1/2¢ per wine gallon.

MR. COMMISSIONER LIPSETT: Was that for Canada or was that generally?

A That was for Canada. That was my understanding that the Canadian trucker could buy that product at 6 to 7½ cents. He was just giving that to me as general information.

Q MR. HARVIE: Mr. Frawley suggested to me it might be as well if you would outline to us how you approached these people. Just who you said you were representing and what was your approach to them?

MR. FRAWLEY: And the quantities you were going to buy.

THE CHAIRMAN: And was it all for shipment into Canada.

MR. FRAWLEY: Yes, and all of that, Sir.

A In this case I gave to you now it was understood shipments to be to Canada and the prices would be on lots of 200,000 gallons a year or more.

Q MR. FRAWLEY: Delivery to be taken how?

A Delivery to be taken at the refinery in tank trucks.

Q MR. HARVIE: Did you disclose whom you were representing?

A No, I did not. I may add that I did that in the first case, the Home Oil Refining Company of Great Falls. I disclosed who I was representing.

Q THE CHAIRMAN: You found it was not wise if you were to get any information to disclose that a second time, eh?

A Well, I chose not to.

Q Yes?

A The next is the Hole Bros. Refinery, at Cutbank. That is a small refinery and refining naturally but they have a gasoline pump out in front of their plant, so I presume

they are marketing. I do not know whether they are producing or not. So they quoted me as follows:

65 Gravity Leaded Gasolene - 7¢ per wine gallon
Third Grade 58 Gravity Gasolene - 6 1/2¢ per wine gallon
45 Gravity Tractor Distillate A - 5 1/2¢ " " "
Diesel Fuel - 4¢ " " "

At the same time he pointed out that they had no Tractor Distillate A in stock and, hence, had none for sale.
The next is the Home Oil and Refining Company, at Conrad.
Now, these people are producing, refining and marketing.

Q THE CHAIRMAN: The 3rd grade gasoline you speak of, is that comparable with the 3rd grade gasoline here?

A I understand it is, yes.

Q Yes?

Q MR. HARVIE: Is this Home Oil and Refining Company at Conrad the same company as the one referred to at Great Falls?

A Yes.

Q The same organization?

A The same organization. The Home Oil and Refining Company at Conrad quoted me as follows:

Third Grade Monto Gasolene - 6¢ per wine gallon
Silver Gasolene (leaded) - 8¢ " " "
Silver Ethyl Gasolene -10¢ " " "

The Deloraine Refining Company, at Oilmont. That is a very small refinery and as far as I can find out they do nothing but refine. They quoted me as follows:

63 Gravity Third Grade Gasolene - 7¢ per wine gallon
Tops (a high grade distillate) - 6¢ " " "
44.5 Gravity Tractor DistillateA - 5¢ " " "
Diesel Distillate - 3¢ " " "

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I might say that Tops, as they call it, they describe it as a high grade distillate and it was quoted at 6¢ per wine gallon.

One of the workmen at this refinery informed me that almost all of their production was going to Canada.

The Morton Refining Company, at Oilmont. It is another small refinery and to my knowledge they are just refining. They quoted me as follows:

Third Grade Gasolene	- 8¢ per wine gallon
40 Gravity Tractor Distillate	- 4¢ per wine gallon
Diesel Fuel	- 3¢ " " "

The Treasure State Refining Company, at Shelby. I do not know whether they are producing or not but they are refining and marketing. They quoted me as follows:

60 Gravity Treasure State Gasolene	- 5 1/2¢ per wine gallon
44 Gravity Tractor Distillate	- 5¢ " "
40 " " "	- 4 1/2¢ " "
Diesel Fuel	- 3¢ " "

In getting the above quotations, I attempted to get them in writing, but was unsuccessful. Mr. Davis, of the Cutbank Refining Company, wrote his quotations on the back of his business card but no signature was obtained. The Treasure State Refining Company, at Shelby, gave me a letterhead on which to copy the prices he gave me but no signature was obtained.

I also called on three jobbers, who told me the names of the Montana refineries from which they were buying their petroleum products and gave me the respective prices in cents per wine gallon, tank car or tank truck lots, exclusive of the 1¢ per gallon federal tax and 5¢ per

gallon Montana State tax. The names of these jobbers, together with prices are as follows:

The Farmers Co-Operative Oil and Supply Company, at Conrad, stated that they pay the Home Oil and Refining Company, at Conrad, as follows:

Silver Gasolene (leaded, 72-74 octane)	-	10 1/2¢ per wine Gal.
Monto Gasolene (third grade)	-	9 1/2¢ " " "
46 Gravity Tractor Distillate A	-	6 1/2¢ " " "
44 " " " B	-	5 1/2¢ " " "
Diesel Fuel	-	5 1/2¢ " " "

The Farmers Co-Operative Oil Company, of Sunburst, stated that they pay the Big West Oil Company of Montana, at Kevin, as follows:

First Structure Gasolene	- 8 1/2¢ per wine gallon
Tractor Distillate A	- 5 1/2¢ " " "
Diesel Fuel	- 6¢ " " "

These prices are f.o. b. Sunburst, so that if the rail transportation charges are deducted, the prices on the above products, f.o.b. the Big West Oil Company refinery at Kevin, would be:

First Structure Gasolene	- 8.17¢ per wine gallon
Tractor Distillate A	- 5.17¢ " " "
Diesel Fuel	- 5.67¢ " " "

The Farmers Equity Co-Operative Company, at Brady, stated that they pay the North West Refining Company, at Cutbank, as follows:

Tractor Gasolene - 8 1/2¢ per wine gallon

Grizzly Gasolene 77 Octane - 10 1/2¢ per wine gallon

The above prices are f.o.b. Brady, in tank cars or tank trucks; so that if the rail transportation charges are

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deducted, the prices f.o.b. the North West Refining Company's refinery at Cutbank, would be as follows:

Grizzly Gasolene - 9.87¢ per wine gallon

Tractor Gasolene - 7.06¢ " " "

So that the above prices and quotations may be more comprehensible, tabulations of same are attached hereto.

In comparing prices in the two tabulations, it may be noticed that Leaded Gasolene is being quoted at 7¢ and 8¢ per wine gallon, tank car or tank truck lots, f.o.b. refinery for shipment to Canada; whereas a Montana refining company is receiving 10.5¢ per wine gallon. It is also interesting to note that the refining company which is charging the jobber 10.5¢ per wine gallon for Leaded Gasolene, quoted me 8.0¢ per wine gallon for a similar product, subject to shipment to Canada; and that the refining company and the jobber are situated in the same town, their plants being but a few hundred yards apart.

It may also be seen that the tank car or the tank truck price per wine gallon on Third Structure Gasolene for shipment to Canada varies from 5.5¢ to 8.0¢ per wine gallon; whereas the Montana refining companies are receiving from Montana jobbers from 7.06¢ to 9.5¢ for this product at their refineries.

It may also be seen that 46 Gravity Distillate is quoted at 6.0¢ per wine gallon for shipment to Canada, and that the Montana refiner is receiving 6.5¢ per wine gallon for a similar product from the Montana jobber.

Again, Diesel Fuel is quoted at from 3.0¢ to 4.0¢ per wine gallon for shipment to Canada; whereas the Montana refining companies are receiving from 5.5¢ to 5.67¢ per wine gallon, f.o.b. their refineries, from the Montana jobbers.

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If I may be permitted, I would like to say that in my opinion most of the refining companies which I contacted seemed to be suspicious about giving quotations on products to be shipped to Canada.

In obtaining the Montana jobbers' prices to the Montana refining companies, in each case I enquired for the price which our company would be forced to compete against in order to sell them petroleum products; and for this reason, I am of the opinion that these prices which they gave me are as low as they are in fact, since it would be to the jobbers' advantage to name a low price in order that they might reap the benefit of a competitive price given by our company.

(At this stage the Hearing was adjourned until 2:00 P. M.)

....

MR. HARVIE: Mr. Chairman, this morning reference was made to the National Petroleum News of May, where the posted tank waggon price in Billings, Butte, Great Falls and Helena was referred to and it was lower than the figure which we had quoted in our brief. Over the noon hour I have been able to obtain this similar publication, the National Petroleum News, as of June 28th, 1939, and I think the effect is that it bears out Mr. Miller's contention and there has been roughly a cent and a half increase in price during that time and I think for our purposes we might put it in and I will read the new prices into the record.

(COPY PETROLEUM NEWS UNDER DATE OF JUNE 28, 1939, HERE MARKED AS EXHIBIT "464").

MR. HARVIE: It is the National Petroleum News, it is the recognized authority for the petroleum industry.

THE CHAIRMAN: National Petroleum News for what date?

MR. HARVIE: The 28th of June, 1939 and on page 50 of that publication there are the postings of the tank waggon prices in these four Cities. The prices read into the record this morning were for Great Falls 12¢, it is now 13.5; Billings was 12¢, it is now 12.5; Butte was 13½¢, it is now 14 cents and Helena was 13¢ and it is now 14½¢. I think the zone or the area in which we are most interested is Great Falls, that was mentioned by Mr. Frawley this morning and you will note there the difference.

MR. FRAWLEY: It was the one we used this morning.

MR. HARVIE: Yes, and the increase from

May to June is $1\frac{1}{2}$ cents and it is that price, and that compares with our 16.25, that is the wine measure.

MAJOR LIPSETT: 13.5 is the wine gallon, what is that for the Imperial?

MR. HARVIE: It shows in our brief.

THE CHAIRMAN: Is it 13.5 or 14?

MR. FRAWLEY: Great Falls?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Great Falls is 13.5, wine gallon.

MR. HARVIE: Yes.

MAJOR LIPSETT: Do you know how much that would be in the Imperial?

MR. HARVIE: 16.2. The figure we used in our brief in Exhibit "461" was 16.25, which is the same figure in effect, only carried one decimal point further. There is I believe a later publication but that is the latest one we were able to get at the noon hour.

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FRANCIS CRAIG DEMPSEY, having been recalled, examined by Mr. Harvie, said:

Q All right, Mr. Dempsey, you had read down to the foot of page 3 of your brief I believe?

A Yes.

Q And page 4 , is a chart and you might proceed to put that in?

A There are two publications which I can read and the first one gives the prices which the Montana Refining Companies quote various products at for shipment to Canada. Now dealing with Ethyl Gasoline there was only one quotation received and that was from the Home Oil and Refining

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Company at Conrad, Montana, 10.0 cents per wine gallon. To those of you who have copies of this brief, these numbers in red indicate the amount in Imperial gallons cleared at the line, that is the amount of 10 cents for instance under Ethyl gasoline is converted to Imperial gallons, 1 cent duty is added and then 8% sales tax is added to that to bring it to 14.04 cents for the Imperial gallon.

Q THE CHAIRMAN: That is Sales Tax in Alberta?

A Yes.

Q You are speaking about?

A Yes, but there is no transportation included in that or Customs Brokers charges.

Well then dealing with leaded gasoline, the Hole Brothers Refinery----

Q THE CHAIRMAN: Would you mind pausing there, you are dealing with the first column, Ethyl gasoline?

A Yes.

Q You say the Home Oil Company offered it to you at 10 cents at the refinery?

A At the refinery, yes.

Q And you arrive at 14.04 by adding 8 cents for sales tax?

A No, by first of all converting to the Imperial gallons.

Q Yes, which gave you your 10 cents and it became what?

A It would become 12.

Q 12, yes?

A And then adding 1 cent a gallon duty.

Q Yes?

A Makes it 13.0 and then adding 8% sales tax and I believe

that works up to 14.04.

Q MR. FRAWLEY: You have not that figure for the sales tax?

A No, I have not got it figured there.

Q 1.04 you say?

A Yes.

MR. HARVIE: And that brings the figure up to 14.04 as shown in red on the Exhibit.

Q THE CHAIRMAN: And the sales tax you are talking about is the sales tax of, the Dominion, the Province, the United States or what?

A The Dominion of Canada, 8% sales tax.

Q MR. PLOTKINS: Mr. Dempsey, that figure does not include freight or transportation?

A No, no freight.

Q From Great Falls to the Border?

A That is correct. It does not, nor does it include Customs Brokers fees at the line.

Q All right?

A Then I will deal next with leaded gasoline; Hole Brothers Refinery at Cut Bank quoted 7.0 and the Home Oil and Refining Company, Conrad, quoted 8.0. Then if we will go to the next tabulation it gives the prices which Montana jobbers are paying the Montana refineries, you will see that the farmers----

Q MR. HARVIE: I think if I might interrupt, Mr. Dempsey, I think if you leave that second tabulation until you finish with the first it will make a better comparison?

A All right.

Q Just go now to the third structure gasoline?

A Yes, third structure gasoline, the Cut Bank Refining Company, Cut Bank, quote 5.5; the Hole Brothers Refining Company, Cut Bank, quote 6.5; the Home Oil and Refining Compnny, Conrad, quote 6.0.

Q THE CHAIRMAN: This is still for tank trucks?

A For tank trucks. Deloraine Refining Company, Oilmont, 7.0; Morton Refining Company, Oilmont, 8.0; Treasure State Refining Company, Shelby, 5.5.

Then under the heading of 46 gravity distillate, there is one quotation namely from the Deloraine Refining Company, Oilmont, at 6.0 cents;

Under the heading of 44, 44.5 and 45 gravity distillate, Cut Bank Refining Company, Cut Bank, 5.0; Hole Brothers Refinery, Cut Bank, 5.5; Deloraine Refining Company, Oilmont, 5.0; Treasure State Refining Company, Shelby, 5.0.

And under the heading of 40 gravity distillate, Morton Refining Company, Oilmont, 4.0; Treasure State Refining Company, Shelby, quote 4.5.

Under the heading of Deisel Fuel, the Cut Bank Refining Company, Cut Bank, Quoted 3.5; Hole Brothers Refinery, Cut Bank, 4.0; Deloraine Refining Company, Oilmont, 3.0; Morton Refining Company, Oilmont, 3.0; Treasure State Refining Company, Shelby, 3.0.

Q Now to just understand that, if I may interrupt you, those are the prices which you were presently quoted by these different refining companies at which you are buying and

taking delivery from their refineries for importations?

THE CHAIRMAN: In tank trucks?

Q MR. HARVIE: In tank trucks for exports into Canada?

A That is correct.

Q Now the next heading, Montana tank car jobbers' prices----

THE CHAIRMAN: I suppose nothing turns on the capacity of the tank truck, does it?

MR. HARVIE: Mr. Miller's evidence is that you can take it any way, even with a bath tub. In fact they make no point of it there.

THE CHAIRMAN: What is the normal tank truck, is there such a variation that you cannot say what an average tank truck would be?

MR. HARVIE: I think a tank truck is probably from 1,000 to 3,000 but a great many of these deliveries are in barrels. They go down with their own barrels, that is correct, is it not?

MR. PLOTKINS: What is that?

MR. HARVIE: You can take delivery in barrels.

MR. PLOTKINS: At the Montana Refinery, yes.

MR. HARVIE: At the same prices?

MR. PLOTKINS: No, the average tank truck, well the smallest tank truck in ordinary use is 1250 gallons and all the way up to 3,000.

THE CHAIRMAN: All right.

Q MR. HARVIE: Then the next part of the Schedule headed Montana Tank car, jobbers' prices, you might just explain what that is and where you got that in-

formation?

A Well the prices in there denote the prices that these respective jobbing companies told me that they were paying the respective refining companies in Montana for these various products.

Q That is for consumption in Montana?

A In Montana, yes.

Q MAJOR LIPSETT: And those are tank car lots?

A Tank car or tank truck.

Q You have a tank car but it includes tank truck?

A Yes.

Q MR. HARVIE: It would be in order to change that heading "Montana Tank Car or Tank Truck Prices"?

A Yes, it would, that was just put in there----

THE CHAIRMAN: Montana tank car or tank truck.

MR. FRAWLEY: If the witness is saying that that is opposed to my information but I would like the witness to be sure about it because that is the very opposite of the information I got from the Manager of the Big West Refining Company.

MR. HARVIE: You can get that from him then.

MR. FRAWLEY: That is all right, but if this witness is willing to say that that is his information, all right. Mr. Dempsey has been down there, although I am told they are tank car.

Q THE CHAIRMAN: Did you ask him about tank truck particularly?

A I believe Mr. Frawley is right about that. I think I would prefer to leave that tank car prices because I do not remember

of being definitely told tank truck.

Q THE CHAIRMAN: Now are you quite definite on the other question, that they are tank truck as well as tank car?

A Yes I am.

Q The ones up above?

A As well as tank car.

Q Yes?

A They are tank truck.

Q I mean you are quite clear on that?

A Oh absolutely, I am clear on that.

THE CHAIRMAN: All right.

Q MR. PLOTKINS: You use the word "jobber", well now these three institutions that you have given are local co-operatives, are they not?

A That is correct.

Q Well putting them on a similar basis in Alberta, could they get jobber prices or do you know?

A I do not know, I do not know.

Q So that you have not gone to the trouble to find a comparable jobber to, as we will say, the Great West or the Canadian Oils or a large jobber that really is a jobber that operates over a wide area and sells any respectable quantities?

A No, I would not be able to say that.

MR. HARVIE: Might I inform the Chairman that these jobbers can take in either tank truck or tank car. However, we will make inquiries before we make a definite statement on that.

MR. FRAWLEY: In Montana.

MAJOR LIPSETT: I suppose the tank truck would

not be any cheaper than the tank car anyway?

MR. HARVIE: No, it would normally be more expensive.

THE CHAIRMAN: We just want to know.

MR. HARVIE: Yes, so there will be no misunderstanding we will make inquiries about that.

Q THE CHAIRMAN: All right.

A Well dealing with standard gasoline, non-leaded-----

Q THE CHAIRMAN: On the one hand you have given us offers made by these refinery companies to you as a prospective purchaser?

A Yes.

Q Then this item, Farmers Equity Co-operative, Brady, Montana, which you gave, that is a check is it, from the other side, to show whether or not the prices which they were offering you were comparable with the prices that they could buy in Montana?

A That is correct.

Q MR. HARVIE: And it was for that reason that you did go to those markets?

A Yes.

Q And that was what you were indeavouring to ascertain?

A That is correct.

Q THE CHAIRMAN: So the Montana man buying at 10.5 and leaded gasoline at 8.5, third structure, they would sell the same products to you for 8 and 6, is that right, or is that 10.5 related to standard gasoline?

A 10.5 relates to standard gasoline, non-leaded. We really have no comparison----

Q You have no comparison against that?

A No.

Q So the only comparison you have is against third structure?

A We have a comparison against leaded gasoline and third structure.

Q Where is your leaded, on the next page?

A Yes, it is on the next page.

Q Yes, I see, I am sorry to interrupt.

Q MR. HARVIE: Just to clear the record on that, I think if you take, you have no comparison under Ethyl gasoline in connection with the price which was quoted to you by the Home Oil Refining Company of 10 cents?

A That is correct.

Q Then you come to the leaded gasoline on which you have two quotations, one from Hole Brothers at 7 cents and one from the Home Oil of 8 cents?

A Yes.

Q Now have you any comparison on leaded gasoline?

A Yes, there is a comparison. The Farmers' Co-operative Oil Supply Company of Conrad, Montana said that they were buying from the Home Oil and Refining Company at Conrad, at the following prices, f. o. b., Conrad, that is 10.5 cents per wine gallon.

Q So that is a direct comparison by the same refinery?

A Yes. Do you wish me to read everything on this tabulation or just where we have comparisons?

Q I think maybe just where you have comparisons, standard gasoline, you have nothing, you received no quotations from any refinery?

A No.

Q On third structure you received a quotation and you have a comparison?

A Yes, and on third structure gasoline the Farmers' Equity Co-operative Company of Brady Montana stated that they were buying from the North West Refining Company at Cut Bank at prices f.o.b. Brady, 8.5 cents per wine gallon and the Farmers' Co-operative Oil Supply Company, Conard, Montana, stated that they were buying from the Home Oil and Refining Company, Conrad, prices f.o.b. Conrad, 9.5 cents per wine gallon.

Q That would be in comparison with the 6 cents?

MR. FRAWLEY: 5½ or 6 cents.

Q MR. HARVIE: From the same company?

A From the same refinery, the Home Oil at Conrad, that would be 6 cents, yes, that would be a comparison to 6 cents and then under the heading of 46 gravity distillate, the Farmers' Co-operative Oil Supply Company at Conrad stated they were buying from the Home Oil Refining Company, Conrad, at 6.5, prices f.o.b. Conrad and that is the only comparison there.

Q MR. PLOTKINS: What is the freight to Conrad from Great Falls?

A From Great Falls I do not know.

Q That would have to be deducted to make the comparison?

A Well now we are comparing it, it was the Home Oil at Conrad.

Q MR. PLOTKINS: Oh, at Conrad?

A Yes. Now dealing with the 44, the 44.5 and 45 gravity distillates, the Farmers' Co-operative Oil Supply Company, Conrad, buying from Home Oil and Supply Company, Conard, at 5.5 f.o.b. Conrad and the Farmers' Co-operative Oil Supply Company, at Sunburst were buying from the Big West Oil Company at Kevin at 5.5 f.o.b. Sunburst.

Q MR. HARVIE: There are no direct comparisons with the same refinery there.

MR. FRAWLEY: But the prices are $5\frac{1}{2}$ cents.

MR. HARVIE: Yes, but I mean we have not been able to get, as in the other cases, the same information in the same refinery.

MR. FRAWLEY; No.

WITNESS: We have nothing to compare under the 40 gravity distillate. Under deisel fuel the Farmers' Co-operative Oil Supply Company, Conard, buying from Home Oil and Refining Company, Conrad, at 5.5 and the Farmers' Co-operative Oil Supply Company, Sunburst, buying from Big West Oil Company, Kevin, 6.0, f.o.b. Sunburst.

(Go to number 10,880)

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Q MR. PLOTKINS: Did you assure yourself in the case of smaller refineries like Deloraine and the Cutbank Refining Company as to the similarity of quality of one Diesel fuel, for instance, as against another Diesel fuel, so as to know enough to compare the price and quality?

A No, I cannot say that I have.

Q MR. FRAWLEY: Is that all you have, Mr. Dempsey?

A Yes.

Q Now, Mr. Dempsey, I have a very few questions at this stage. You have been giving some comparisons on Ethyl gasoline and leaded gasoline. That is Tetra Ethyl lead treated gasoline?

A Yes.

Q Do you state, or do you feel, that you can import any kind of Ethyl or Ethylized gasoline into Alberta?

A Well, may I answer that in this way. The man quoted me on leaded gasoline and on third structure. First of all, he quoted me on third structure, then he gave me the leaded gasoline price and he said "Ethyl will be 2¢ more."

Q I am sure these are proper quotations. But you are a jobber now for the purposes of this evidence importing into Alberta, are you not?

A Yes.

Q Very comparable to the business that Trimble Brothers carry on. Do you know anything about their operation at all?

A Just slightly. I have heard of them.

Q I suggest it is something comparable to their business except the figure you put down to qualify you was 200,000 gallons per annum to be taken in tank truck. That is the way you represented yourself?

A Yes.

Q And Trimble Brothers' business runs into more than a million gallons per year that they bring into Alberta, but their business is more comparable to that than any other I have at the moment. I put it to you, you cannot bring in a gallon of leaded gasoline into this province from Montana. Nobody is permitted by the Ethyl Corporation to import leaded gasoline into the Province of Alberta, is this clear, excepting the Texas Corporation?

THE CHAIRMAN: What do you say about that? You are the witness?

A Well, all I can do is repeat what I have already told you, that he said "Ethyl gasoline will be 2¢ more." I assumed from that that he would sell it to me at that price for trucking into Canada.

Q MR. FRAWLEY: Do you know, as I say - I must be putting these things to you as facts, but we will have to prove them in due course - but will you assume with me that the Ethyl Corporation statement to this Commission will be that there is nobody permitted to export Ethylized or Ethyl gasoline out of Montana except the Texas Corporation. Then you will agree that the quotation you got on Ethyl and Ethylized gasoline are not of much value to the Commission?

A Yes.

THE CHAIRMAN: You say Ethyl or Ethylized gasoline.

MR. FRAWLEY: Yes, what do I mean by that, Mr. Dempsey?

A That is gasoline to which Tetra Ethyl lead has been added.

Q What you have called leaded gasoline?

THE CHAIRMAN: That is what I want. What you call leaded gasoline, the second column?

A No, the conclusion that I came to was that the leaded gasoline that they quoted me on down there would be something comparable to Imperial 3 Star or B. A. Nevr-Nox. It would be what we termed Ethyl gasoline.

Q MR. FRAWLEY: Ethyl gasoline is first grade gasoline?

A Yes.

Q And the second column that I have been calling Ethylized gasoline is 3 Star and Nevr-Nox and the silver gasoline, "Q" Brand?

THE CHAIRMAN: It is not Ethylized at all then?

MR. FRAWLEY: That is just an expression.

THE CHAIRMAN: It has nothing to do with the Ethyl Corporation, has it?

MR. FRAWLEY: Yes, it is the same product but you just add more.

THE CHAIRMAN: That is what I want to know. There is one brand that the Ethyl Corporation puts out, called Ethyl gasoline?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And in addition to that?

MR. FRAWLEY: No, I am not correct. The Ethyl Corporation does nothing but sell the lead.

THE CHAIRMAN: Oh, they sell gasoline known as Ethyl?

MR. FRAWLEY: No, they sell Tetra Ethyl lead.

THE CHAIRMAN: That carries with it the

trite cognomen Ethyl when added to gasoline.

MR. FRAWLEY: No, that is hardly putting it right. It is still Tetra Ethyl lead but the best product is called Ethyl gasoline which the refiners turn out. They call that Ethyl gasoline and it has the Ethyl label on it. That is, as Mr. Harvie says, Premium gas. Anything of the second structure is Ethylized gasoline, or "Q" or leaded.

THE CHAIRMAN: Yes? Also utilizing a proportion of the Ethyl Company compound?

MR. FRAWLEY: Yes, using Tetra Ethyl lead. They use the same product.

THE CHAIRMAN: But less of it or a different product?

MR. FRAWLEY: Less of it. Now, whether it is a different product, just slightly different, it might be, but it is still Tetra Ethyl lead, but whether or not the quality itself is just the same to supply all kinds of refineries, I would not care to be explicit on.

MR. HARVIE: Mr. Miller is going back and he is more acquainted with that than this witness.

THE CHAIRMAN: There is no other leaded gasoline then?

MR. FRAWLEY: Except what is made with the product of the Ethyl gasoline corporation, that is quite right.

THE CHAIRMAN: Is that right?

MR. FRAWLEY: That is right, is it not, Mr. Miller?

MR. MILLER: All Tetra Ethyl lead is

supplied by the Ethyl Corporation.

MR. FRAWLEY: There is no leaded gasoline except that made from the products of the Ethyl Gasoline Corporation?

MR. MILLER: Yes.

THE CHAIRMAN: What you are getting into at the present time is that that leaded gasoline, it all comes from the products of the Ethyl Corporation?

MR. HARVIE: No, not all that are sold are of the same standard as "Q" Brand. There may be gasolines that are not leaded. Cracked gasoline you can build up to as much octane without the lead.

MR. FRAWLEY: But if it is leaded?

THE CHAIRMAN: Mr. Harvie says that it does not necessarily follow that all your gasoline of the greatest value in power is leaded.

MR. HARVIE: Or sold on the same competitive market as leaded or partially leaded gasoline.

MR. COMMISSIONER LIPSETT: Mr. Frawley, you put to the Witness something here that I want to hear about afterwards, that the Ethyl Corporation prevented any Ethyl gasoline coming in here except for the Texas Company?

MR. FRAWLEY: Yes.

MR. COMMISSIONER LIPSETT: Do you mean that - if it is proven - that when the Ethyl Corporation sells their Ethyl lead, they control where the resulting product may be marketed?

MR. FRAWLEY: Yes, it is all a matter of licensing. I shall anticipate the evidence that is coming to make clear, so that the Commission is not even unintentionally

mislead by Mr. Dempsey's evidence. Nobody can bring leaded gasoline, and that is standard leaded gasoline, or Ethyl leaded gasoline, from Montana into this province except the Texas Corporation by virtue of a special arrangement which they have with the Ethyl Corporation?

THE CHAIRMAN: Does that mean that all other refineries doing business in Alberta that want to make the leaded product must buy from the Texas Company?

MR. FRAWLEY: Unless they get a refiner's license themselves. The British American Company has a refiner's license from the Ethyl Gasoline Corporation, and the Imperial Oil the same, and Mr. Mayland has one now.

THE CHAIRMAN: What you mean is this, if this Witness did not have a license, he could not bring it in then?

MR. FRAWLEY; No.

THE CHAIRMAN: Or do you mean what you said, that there is nobody but the Texas Company can get it?

MR. FRAWLEY: Because the refiner's license in Montana is territorial. Now, get me the name of this company that gave you the quotation. The Home Oil & Refining Company at Conrad, that was precisely the case, if I may be permitted to make a statement, that is precisely the case I brought to the attention of the Ethyl Corporation myself. Why could not McNeill's Taxi Cab Company in Edmonton bring in a quantity of leaded gasoline from the Home Oil & Refining Company, because he was told he could not. The Ethyl Corporation said "Quite right. The Home Oil & Refining Company is licensed to refine and market these products within the four corners of the State of Montana, and not

a foot outside of that." The same with the other company that quoted Mr. Dempsey.

THE CHAIRMAN: You say that the witness could not have bought from anybody in Montana because this person in Montana had not a license from the Ethyl Corporation to sell the product outside of Montana?

MR. FRAWLEY: That is the situation precisely with the Ethyl Gasoline Corporation. It is the effect of the license. They are all issued territorially.

MR. COMMISSIONER LIPSETT: Probably Mr. Dempsey's answer was that they said that that gasoline would be 2¢ more.

MR. FRAWLEY: Yes, but they did not stop to tell where it was going because it would be only an impasse?

A They knew it was coming to Canada. That would be the understanding.

Q I suggest to you, to be brief, that they had not followed the thing out carefully enough in giving you that quotation?

A Yes.

Q At the moment, I simply want to appreciate Mr. Dempsey's evidence, and I would like to see what he has brought before the Commission. So that upon my assumption now the Commission will have to state with some doubt perhaps the evidence you offered with respect to the Ethyl gasoline quotation and the leaded gasoline quotation. Now we go to the next, standard gasoline, non-leaded.

MR. HARVIE: I would not say with some doubt. I would simply say it would not be material. I do not think there is any doubt about it.

MR. FRAWLEY: That is just a way of

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expressing it. I did not like to put it that way.

MR. COMMISSIONER LIPSETT: Is your suggestion to the Witness this, that even leaded gasoline, that is standard gasoline, cannot be sent out of Montana?

MR. FRAWLEY: Yes.

MR. COMMISSIONER LIPSETT: By anybody except the Texas Company?

MR. FRAWLEY: Yes. If it is leaded gasoline.

MR. COMMISSIONER LIPSETT: As I understand, the ordinary standard gasoline of the Imperial, and the Nevr-Nox, contains a small quantity of Ethyl lead?

MR. FRAWLEY: Tetra Ethyl lead, yes.

MR. COMMISSIONER LIPSETT: Does that mean that because of that small quantity, the Home Oil Company Refinery cannot supply their ordinary standard gasoline with this small quantity of Tetra Ethyl lead in it for export to Canada?

MR. FRAWLEY: That is right. All Ethyl refiner's contracts are limited territorially. That is all that matters.

MR. NOLAN: All but to Texas.

MR. FRAWLEY: All but to Texas, as Mr. Nolan points out.

Q THE CHAIRMAN: That includes standard as well as Ethyl?

MR. FRAWLEY: Yes, it is their product that they are using and that is what they are doing. There is a standard gasoline, non-leaded. That is perfectly good gasoline, second-structure gasoline, the kind Mr. Harvie talked about a moment ago. It is just as good an octane number as leaded gasoline, but it is made without any

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reference to the Ethyl Corporation. The octane is got up by intensive cracking.

THE CHAIRMAN: What have we that is comparable here to that?

MR. FRAWLEY: It does not happen to be sold, except that gasoline Mr.Halverson talked about which is not a marketing gasoline. Premium gasoline.

MR. PLOTKINS: There is no comparable product at the present time.

MR. HARVIE: There is in Canada.

MR. FRAWLEY: But in Alberta.

MR. PLOTKINS: That is only a half-truth. The fact of the matter is that both refineries produce a comparable product but because of economies resulting in the blending of third structure with the cracked gasoline that has the necessary octane number before it is blended, and adding the lead is more economical, in other words it results in lower costs and none of the cracked gasoline with the high octane finds its way into the market. So that is the reason that there is no comparable product on the market.

THE CHAIRMAN: I was wondering if it compared with the White Product they use in lamps, and so on, on the farms, that Mr. Halverson said that they thought they would discontinue. What was that called?

MR. FRAWLEY: I think that is called lighting naphtha. It is not a motor fuel, and I do not think that has an octane number, has it?

THE CHAIRMAN: Mr. Nolan, I thought it was,

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speaking from memory only, I thought it was a fuel that could be used for all purposes?

MR. NOLAN: I did not know that it had any lead in it at all. I may be wrong.

THE CHAIRMAN: I do not know whether it has. Oh no, it could not.

MR. NOLAN: You thought it had been cracked.........?

THE CHAIRMAN: Mr. Frawley suggests it is only a lighting fuel, and not used in motor cars. I thought it was general utility.

MR. PLOTKINS: It is general utility, white gasoline, used in lighting, and it is not necessarily of a high octane quality.

THE CHAIRMAN: In the result, we are all agreed we have as yet nothing to compare with that second structure.

MR. FRAWLEY: Except leaded gasoline.

MR. HARVIE: We do not agree with that.

MR. FRAWLEY: On the market today, Mr. Harvie?

MR. HARVIE: Mr. Miller will give our explanation of that. Mr. Dempsey is an asphalt engineer and is not familiar with that.

MR. FRAWLEY: I will go on to third grade. We find the situation there is that you got no quotations on standard gasoline non-leaded?

A Correct.

Q Your evidence there, to use Mr. Harvie's expression, is not very material. Third structure gasoline. You have submitted

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some comparison?

A Yes.

Q And 46 gravity distillate and some other distillates and Diesel fuel. Now, just another question or two. Do you know what the farmers pay when they go across with an ordinary truck-load of empty barrels, and go to one of these refineries. Do you know what they pay for the two kinds of gasoline we are concerned with here, third structure and 68 to 70 octane gasoline?

A No, I do not.

Q You did not make any enquiries from farmers going down with a dozen barrels apiece?

A No, I did not make any enquiry.

Q And you do not know what the trucker in the business to the extent that Trimble Brothers are, you do not know what they pay at the Big West Refinery for those two grades of gasoline, third grade and non-leaded 68 to 70 octane?

A No, I do not.

Q You do not know anything about the operations of that man called Earl Clack, in the State of Montana, who is a very big jobber?

A Not other than hearing his name mentioned. I know nothing about his operations.

Q Do you know what the nature of the operations of the three Farmer Co-operatives that you did call upon, and whose prices you have quoted us here, is?

A These three Farm Co-operatives?

Q Yes? Take the one at Brady, Montana, for instance. I do not mean the gallonage, but how many plants they

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have got, for instance?

A Just one, to my knowledge. Each one of them has one plant.

Q How is the gasoline dispensed at that plant at Brady?

A At Brady, it is dispensed, part of it dispensed, through the regular pump.

Q Retail vending pumps?

A Yes.

Q Yes?

A And I understood that most of it was dispensed to farmers in barrels.

Q A sort of a combination outlet, the Farmer Co-ops?

A Yes. They are all pretty much identical in that they have storage tanks on railway sites and they could take delivery in tank cars or tank trucks, I imagine, and barrel it themselves for sale to the farmers.

Q Something very similar to the British American dealer distributor in the new set-up?

A You are referring to the plant?

Q The plant, yes?

A Yes, something similar.

Q In that there is a retail half of the business, with retail vending pumps, and a barrel-filling plant wholesale outlet?

A Very much the same.

Q Excepting that they are on the railroad?

A Yes.

Q And the storage is vertical?

A It is above ground.

Q Let us go back to the old B. A. system or the present

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Imperial system. There are no retail facilities there?

A No.

Q I do not think there ever were at any Imperial agency?

A Not that I am aware of.

Q Or the B. A. agency under the old system?

A No.

Q If we take the old B. A. agency and super-impose a retail outlet in connection with it, then we would have this Farm Co-op. plant you saw in Montana?

A That is the idea, yes.

Q And it would be about the same size as a good-sized B.A. station, as it was in the old days?

A The B. A. station........

Q The old agency?

A Well, could I answer that in this way. The warehouses were very much similar in size, and the amount of storage was very much similar in size.

Q Physically, as far as you could see it, sitting above ground, these three Co-ops at Conrad, Sunburst and Brady were pretty much like the B. A. plant as it was before this year with the addition of some retail facilities?

A Yes, sir.

Q MR. PLOTKINS: Can I ask a few questions? I will ask most of the questions of Mr. Miller because I think he will be able to answer them probably better. Now, did you ask any of these refiners that you interviewed what made them quote you that particular price? Did you try to paint to them the picture of the competitive conditions you were operating under in Canada here when you represented yourself as a jobber?

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A I am afraid I do not understand your question, Mr. Plotkins.

Q Have you any experience in the marketing end of this business, of the oil business?

A No, my experience has been purely in the asphalt business.

Q That is all thanks?

Q MR. FRAWLEY: If I might ask you one question. You said a moment ago, when I interjected, that the price........ that the delivery to these Farmer Co-ops you call jobbers in Montana, was by tank car and not by tank truck?

A Yes.

Q You agreed with my suggestion?

A Yes, I agreed with that.

Q Perhaps I might just recall this to your mind. Were you told the reason that was a tank car movement out of the refineries there was that the railways took away the residue, the heavy fuel from these refineries in Northern Montana, and that they respected the railways to the extent that they insisted on movement from refineries to other Montana consumption be by tank car.

ALFRED HERBERT MILLER, recalled:

Q MR. PLOTKINS: Might I ask a few questions of Mr. Miller before he goes on with his testimony in regard to the last Witness's evidence?

THE CHAIRMAN: Yes, we might as well finish that up.

Q MR. PLOTKINS: Mr. Miller, you are the Sales Manager of the British American Oil Company?

A Right.

Q And when some jobber comes to you to get prices, do you

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place yourself in the position where you visualize what other refineries are likely to give that jobber in the matter of prices, or other jobbers are likely to give him, in finally arriving at the price you feel would be competitive?

A I suppose we do. In other words, we have a price, at least we have prices from time to time that we change and vary according to crude, production prices or general marketing conditions. We generally consider a jobber in accordance to the volume he will buy. I think that a jobber who will buy 1,000,000 gallons in a year would be entitled to a better price, if it possibly can be given, then a jobber who buys 250,000 gallons a year.

Q That is quite legitimate, is it not, Mr. Miller?

A That is, as far as we are concerned. I do not know what other people are doing.

Q Now, consider the refiner in Kevin, Montana. Take the Big West. That is a typical refinery, and doing a big business in Canada. Would not the Big West Refining Compgny in making a quotation to a Canadian jobber ascertain what the major refiners in Alberta would be likely to quote, either direct or through a jobber customer, before arriving at a price to quote possible purchasers for export to Canada?

A I do not know, Mr. Plotkins. I do not know what they do, how they base their prices. I imagine some people down there if they are producers and refiners would quote a lower price maybe than a refiner only, a man that is not a producer. As to how they strike a basis for their prices up here, that is pretty hard for me to say.

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Q In other words, would they not know what the major jobbers in the province are getting, and we will say on standard gasoline a 6¢ spread between the tank wagon, the final tank wagon and the price quoted, and endeavor to meet it?

A As I say, Mr. Plotkins, I do not know how they arrive at their information. They may have representatives up here keeping them posted as to what prices are being secured by jobbers, but I think there again it is hard. Right out at our door there are many prices being quoted to jobbers today that I am not conversant with, so I do not know how they could be conversant with them down there. For instance, I do not know what you pay for your products and I do not know what the North Star pay for their products. The only thing I know about jobbers prices is what the jobber that we do business with pays us. So if they do know, they must have somebody that acquires that information up here.

Q You know what you give your own jobbers, and is it not likely what you are giving is about the average spread or you would not retain the business?

A I do not know, Mr. Plotkins. We have some regard, at least jobbers who buy from us have some regard for quality. As I said the other day, the Great West Distributors who we sold 100% their requirements could go down south of the line and buy, or could have done on many occasions during the past four or five years to my knowledge and bought there cheaper than they can buy from us.

Q Through what points?

A Through Alberta points.

Q On the average they can buy cheaper?

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A I do not know, on the average, but I believe through Alberta points - the Great West Distributors operate I think according to this map at 130 points in Alberta. I do not know how many points they would wish to supply from Montana, but I do know that they could have gone to Montana and bought at lower prices than we were prepared to sell for.

Q You said a moment ago you had 100% of their business?

A Quite right.

Q So that they were not free to pick the territory where they could lay down their goods much cheaper except at the risk of losing their connection with you at the other points where they could not successfully compete. Is that not correct?

A Oh, I do not think so. We do not feel when we have an agreement with a jobber -and that also applies to the Great West - that if there are conditions which we cannot meet and whereby we are satisfied that they can do better elsewhere, we have in nearly all cases forgotten that there was an agreement and permitted them to go and buy where they felt fit.

Q Now to come back to the American refinery in Montana, would it not be fair to say that the prices that they are now quoting that have been given in evidence by Mr. Dempsey, is not nearly as low as the price that the Imperial have disclosed to this Commission on the jobber price f. o. b. Calgary?

A I do not know what the Imperial have quoted. I have never read their evidence. I do not know their price.

Q Would you say anyone could successfully bring in standard

gasoline, 70 to 72 octane from Coutts and lay it down at the prices quoted by Mr. Dempsey, lay it down in Calgary and continue to exist in this business?

A I do not think they could.

Q Beg pardon?

A I do not think they could. As I said this morning, as a matter of fact, our tank wagon prices in Calgary are lower than they are at the Montana refinery points. Therefore, if our tank wagon prices are lower, it does not seem possible they could go down and buy and bring it in and make very much money.

Q MR. HARVIE: Unless they can buy cheaper there?

A Yes, unless they can buy cheaper.

Q MR. PLOTKINS: Then why do you conclude there is dumping?

A By virtue of the prices we quote. I am not talking Calgary, I am talking Alberta. I am not talking of any part of Alberta. That is up to you to figure that out. You know as well as I do, I suppose, that south of the line here, south of Calgary, many of these prices you have been made acquainted with there, would permit a man to lay down at a lower price than he could buy for on this side, down in that area, and that there is ample evidence that the prices are lower to a Canadian buyer so long as he brings it back into Canada, than they will sell their own jobbers for in the State of Montana. And that is what I refer to as dumping.

Q Would you care to qualify that word "jobber"? What do you say constitutes a jobber? The reason I ask you that is, Mr. Halverson when he was on the stand gave us a typical picture of the conditions that exist between their company

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and the Co-operative, or the Maple Leaf and the Alberta Oil Consumers or the U. F. A. Organization, and there was a similar condition and their commission was $2\frac{1}{4}$¢ against 6¢ jobbers spread. So is it not a similar condition that Mr. Dempsey has painted for us this morning and in reality not a jobber in the true sense of the word?

A I do not get your point.

Q What do you say constitutes a jobber?

A Well, I would say a jobber in the oil industry is a man who has storage equipment and facilities in which he could sell products by tank wagon to other people for resale purposes.

Q Do you give the same price to all jobbers whether they are small or large?

A We?

Q Yes?

A Speaking for our company.

Q Yes?

A No, sir. As I said just now, we figure our quotations according to the volume of the business.

Q Would that not be true also of the Montana refinery in dealing with jobbers?

A I do not know.

Q Is it not logical to assume that would hold true, or do you assume it will hold true?

A It does not appear to be holding true when you consider these prices and when you consider the imports into Canada, and when you consider the small quantities that a number of these importers have purchased and brought back into Canada?

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Q Mr. Miller, would there not be another reason that would permit or that would allow the Montana refineries to disregard strictly the question of volume in arriving at prices to quote jobbers?

A I do not know, Mr. Plotkins. I think the best answer I can give you is that we have made a survey and secured quotations and we know and I think you know that those quotations are lower than in small quantities for export into Canada, than jobbers in the State of Montana buying larger quantities can buy for. Now that is all I can say.

Q Buying larger quantities?

A Yes, because as I said this morning the tank car price in the State of Montana is 2½ to 3 cents below the tank wagon.

Q That is the Spot tank car?

A So far as we can find out it is 2½ to 3 cents below the tank wagon.

Q Yes. Now what is the contract tank car price in the State of Montana at this time?

A I cannot tell you.

Q Now do you know there is such a thing as a "contract" tank car price in Montana?

A My people tell me that there are no refinery door prices according to that wire and there are no special pricesto jobbers. There are only two prices, namely tank wagon and tank car.

Q Now would you quote a Canadian jobber the same price if he said "I will buy today and tomorrow I might buy somewhere else" or would you quote him a better price if he were

willing to undertake a contract with your people?

A That would depend, Mr. Plotkins, on whether we wanted that contract, whether we first of all wanted to supply that jobber because I do not think there is anything illegal in the matter where we do not wish to sell, I do not think we have to, in other words, I think we are quite permitted to refuse contracts if we so wish. We have always felt that we had the right to select our jobbers and so forth and whom we would like to sell. We are not desirous of selling all jobbers.

Q No, that is perfectly legitimate, there is the matter of risk and ability to pay their bills and so forth?

A That is right.

Q But coming back to Montana, you see the position is, as I know it, is that their tank car market, as you say, is there all right but there is also a contract market which has the effect of establishing an f.o.b. refinery tank car price which the International, to my knowledge, post at their door. Now that price, well I am not familiar with it, it is considerably lower than the prices which Mr. Dempsey has brought back and that is why I would like your comments on that phase of the situation in Montana?

A You mean by that, that there are tank car prices in the State of Montana for 3rd Grade White Gasoline lower than 5½ cents per Wine Gallon.

Q I am not speaking about 3rd Grade, I am talking about Standard.

A Well do they have 3rd Grade prices in tank car on the same basis?

Q I tell you I do not know but I do know there is a new, to the best of my ability I think this is correct, there is a definite tank car market for standard grade, that is the Q-brand and I would like your comments on that, why you say in the face of that situation that exists in Montana, why you say these refineries are dumping when they are selling at 1 cent or 1½ cents over that tank car price?

A Well, I said there, Mr. Plotkins, that the tank car price, so far as we know is 2½ to 3 cents below the tank wagon price.

Q Yes.

A Now, if you know of some other contract jobbing price or some special price, I have not got that information and maybe you can tell me what it is.

Q I just wanted to ask you if you had considered the matter in view of the fact that there is such a thing.

A Can you tell me if there is?

Q Yes, there is.

A And what is it?

Q Yes.

A And what is the basis?

Q Pardon?

A What is the basis?

Q It is the refinery based on crude so far as I can find out, to a point. The last time I saw it posted in the lobby of the International Refining Company it was 7.2 or 7.1 and it varies from day to day and month to month.

A To whom?

Q It is the posted price, to whom?

A Yes.

Q The posted price to the trade.

A Tank car?

Q Tank car.

A Well as I said, those are the prices which we have and those are the bases so far as tank car prices go, that we know of and the only one.

Q You see, Mr. Miller, the reason I am emphasizing that is that complaints have been made to the Dominion Government, I know I have complained and they have gone down there and investigated and they have decided there is no dumping at the present time based on those facts and that is all I wanted to draw to the attention of the Commission and I thought you were familiar with the situation and I thought you might give us your comments.

A As I said, I am not familiar with any other tank car prices than these; our people tell us these are the only tank car prices in effect in Montana, 2½ to 3 cents below tank wagon.

Q While we are on that subject ----

A Our office is right there. True it is the office of our producing company. Mr. Johnston is very familiar, having lived there all his life, with the marketing conditions in general and that is, that is his reply to the inquiry which I made with wires also attached, and I figure he has surveyed the picture and he advises us there is only one tank car price, 2½ cents to 3 cents below the tank wagon price and I really think he is right. However, we will find out and Mr. Frawley can find out too.

Q Now while we are on this subject, Mr. Miller, you will

notice that Mr. Johnston informs you that the spread below the tank wagon price or the tank car market is 2½ to 3 cents?

A Yes.

Q What have you to say as to why that should not be sufficient here for a spread instead of 6 cents?

A Well, as I said, I am not familiar with other people's prices and I know this, we do not make any quotations here at 6 cents below the tank wagon and tank cars. Our tank car price in Canada to an individual tank car buyer, a man who buys a tank car once in a while in the Province of Alberta, I think is 3½ cents below the tank wagon.

Q I didn't hear that?

A A man buying a tank car today in Calgary, he would pay 3½ cents below the tank wagon.

Q Yes, but we have had evidence here introduced by the Imperial that every jobbing company with one exception, has 6 cents spread on a few brands and we have evidence from them that their marketing costs are 4.28, and yet we find in Montana, of course I will admit that is not the whole picture, but we find in Montana on the face of it that there is only 2½ to 3 cents spread between the tank wagon and the tank car, does that not mean, Mr. Miller, that the marketer in Montana only has 2½ to 3 cents to market, I mean as a marketer?

A Well now, you have had a lot of experience, Mr. Plotkins, in the American market apparently, and I think if so you will find that the average spread between tank car and tank wagon throughout the United States is very much

narrower than it is in Canada. The majority of tank car buyers in the United States sell mostly retail; in other words, the big sales in the United States are consumed by cars, trucks, buses, and not by tractors as they are up here; secondly the average tank car buyer buying 2½ cents or 3 cents below the tank wagon market, he enjoys the retail spread between tank wagon and the price to the consumer in his business of another 3½ to 4 cents. He enjoys a differential between the price he pays for his tank car and the price he sells it for of about 7 cents a gallon but here it is a different picture.

Q MR. FRAWLEY: Mr. Miller, you see you are going away and we will not get the benefit of putting some of this later evidence to you so I put it to you now, I put to you my information with respect to the prices at which the farmers can go down to the refineries and buy it, so you will have that before you and if you want to comment on it you can comment on it, because you will not be here when it is going in ----

A Well, Mr. Frawley, I may have before I leave here some invoices and some of the prices confirmed by invoice what farmers, jobbers and other people are paying for these products in the State of Montana and if we have, we will be glad to let you have it.

Q If you are going to supplement this information - fine, but I am going to put it to you that farmers can go down and buy gasoline at the Big-West Refinery for 8½ cents U. S. Gallon for 68 to 70 Octane and 6½ cents, Wine

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Gallon for 3rd Structure; but Mr. Trimble, however, who buys in large quantities, pays 5 cents for 3rd Structure and 7 cents for 68 to 70 Octane, those are prices that might assist you in putting this presentation before this Commission.

A Mr. Trimble is buying lower than the lowest price we have given you because our lowest price is 5½ cents.

Q But as Mr. Plotkins says if Mr. Trimble tried to lay that down in Calgary, he would find it would pay him much better to go to the Imperial or yourselves and get the Great West price or the North Star price?

A Well there must be a reason why he does not.

Q Yes, because he does not come into Calgary, that is why, he looks after that Southern fringe and that is the whole story.

Q MR. PLOTKINS: Now while we are on that there is an economic reason for that too, and I want to go into that to inform the Commission, do you know that there is a freight differential between Sunburst or Kevin and Coutts, Mr. Miller?

A I am not conversant with the freight rates, Mr. Plotkins. We are making inquiries on those freight rates today in view of what Mr. Frawley said this morning.

Q Yes. Now to lay down a gallon of gasoline in Lethbridge we will say, the shipper or importer will have to pay what is known as the combination freight rate and that is we have to pay 7/10ths of a cent a gallon to ship from Sunburst to Coutts and from Coutts to Lethbridge it is the normal C.P.R. rate to Lethbridge, whatever it is, so that the combination of the two, and that is why it

is known as the combination rate, is higher than an equal distance in Canada on the C.P.R., so is that not the reason why there is so much trucking, the reason why so many millions of gallons are coming into the southern fringe and so much trucking is going on?

A Because of the high freight rates?

Q Yes, because it can be trucked in so much lower than by shipping.

A I have already made mention of that fact, that the freight rates in the West are very considerably higher than they are in Eastern Canada and I said they are out of all proportion and I said they are too high and always have been too high but we cannot do very much about it.

Q Well then, is it not reasonable to say to the Commission that after all the laid down cost is the material thing and the f.o.b. refinery costs, when we come to consider comparisons or prices?

A Well that depends, Mr. Plotkins, as to what you are trying to arrive at. I do not know whether you were here at the commencement of our discussion of importations. What we say is that we have not got sufficient protection; in other words, there is a dumping duty on gasoline, there is a dumping duty on crude. As I said the other day, importations are being made into Canada according to our analysis below the actual costs of producing the product in the United States and that particularly supplies in Eastern Canada; in other words, as I said, if the price of crude is $1.25 and the man cannot sell his crude, well

he puts up a little refinery and he runs his crude and then he gets it into Canada by reducing the prices below his crude net back of $1.25; in other words, he might be satisfied to take $1.00 net back for his crude or 80 cents and that is the point I have referred to.

Q But Mr. Miller, is that not a normal play of competitive forces and is that not what we want?

A Well, I do not know whether we want it or not but I will say this, Mr. Plotkins, if everybody is going to sell merchandise in Canada below cost it is just going to be too bad on the people who are trying to make a livelihood in this country.

Q Why do you say it is below cost, Mr. Miller?

A Because as I say, it is below our cost.

Q Below cost?

A Or below the cost of anybody else who is content or paying the field price of crude.

Q When based on the posted field price of crude?

A Yes.

Q So that if another oil field is discovered that permits of cheap production, cheaper than what the competitive field price of crude would be, you do not want it to assert itself, you want to maintain the price at the competitive figure even though the price of production of that particular field is lower than some other field, is that what you mean?

A What I said, Mr. Plotkins, was this, that we should not be expected to compete with people that can put their products into Canada below the field price of crude plus the manufacturing costs.

Q Below the field price, I did not get the last words?

A Plus the manufacturing costs.

Q MR. HARVIE: Your reason for that being, Mr. Miller, if I may interrupt, is that you have to pay the field price of crude or you are charged with a dumping duty?

A Quite right.

Q And by a person refining crude in Texas, if that is the result ---

MR. FRAWLEY: Or in Montana.

MR. HARVIE: Using Texas in this case, who then sells at a figure that nets back less than $1.25, if that is the field price, then you are put at a disadvantage through the operation of the anti-dumping duty laws?

A That is right.

Q MR. FRAWLEY: Unless that man when he gets into Canada maintains your prices, sells at your prices?

A He doesn't get into Canada, Mr. Frawley. He sells it to people in Canada.

Q And gives the consumer a price then less than he would have to pay if he bought at your prices?

THE CHAIRMAN: I wonder if I understand this aright? My understanding of Mr. Miller's criticism of dumping is this, that he has no objection to the Montana refineries selling their products at whatever price they can manufacture and sell generally but the fact is they get a surplus that has nothing to do with their normal operation or their normal market and simply because they can get out of it practically what it costs them, giving

them a little greater volume, they dump that --

A That is quite right.

Q He is quite willing to meet competition as such but not to meet a pure surplus that is created and used for ruining somebody else's market, without any great advantage to their own?

A That is right.

Q Except to slightly increase their own volume?

A Yes.

MR. PLOTKINS: And I quite agree with that situation if that is the situation.

MR. FRAWLEY: That is whether or not the sale price into Canada is less than cost.

THE CHAIRMAN: Whether it be right or wrong, it would appear to be the public policy of Canada to prevent so-called dumping, otherwise there would be no anti-dumping laws.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And now with whether or not that is a wise or an unwise policy we may or may not be concerned, - perhaps we are concerned with anything which will make for wisdom in connection with this industry, perhaps we are. Perhaps we are quite within our scope to say to his Honour that we recommend that His Honour press upon the Provincial Legislature that they in turn invite the Dominion Government to do something about duties, so it is not very far away at all, - in fact it might be of very vital importance so far as our recommendations are concerned and what happens after that we have no concern with at all, but it may be the sensible thing to do and therefore,

the sensible thing to recommend.

MR. FRAWLEY: Yes.

THE CHAIRMAN: I mean that something be done about the tariff if the evidence leads to that conclusion, and secondly, if anti-dumping laws now in existence or others, which will have a better effect, would not only be put in effect, or if in existence, enforced. We are concerned with all that.

MR. FRAWLEY: All I am saying at the moment is that there has been no case in my mind made out that these refineries in Northern Montana, that their export prices are less than their costs.

WITNESS: I think after you see these records, you may not think that.

MR. FRAWLEY: What relation is there to cost, we have not, we have been struggling to get one man's costs down there and we have not even attempted to get anybody else's cost ---

THE CHAIRMAN: Well, it strikes me, we are told that our immediate competitor of the Turner Valley field is Montana ----

MR. FRAWLEY: Yes.

THE CHAIRMAN: And the very minute that we come to get down to finding out something about Montana, it is all clothed in mystery and fog. I am at a loss to understand that. Our next door neighbors. We can find out what they can do in Texas and the Gulf situation is no trouble to us at all but we cannot find out what is going on in our backyard. I do not understand it.

MR. FRAWLEY: These fellows' Sunburst costs if we ever get them, they are going to throw a lot of light on the subject. Mr. Miller has not attempted to say, as I see it, that these export prices are even, - never mind costs at all, - are even not the average refinery net back. That is what Mr. Cottle and Dr. Frey are working on, that is if these export prices represent the average refinery net back.

THE CHAIRMAN: All I am wondering about is the best way to get at this. We have had two people, Mr. Miller and Mr. Halverson, who are very serious in making these statements. And Mr. Miller supports it in the fashion we know of. You offer some criticism to that and that criticism may or may not have weight, even as the evidence may or may not have weight with us, but what I have in mind is that it ought to be possible to remove any doubt, perhaps it is not you see, but I did get that impression that the minute we touch Montana we are lost. Nobody knows anything, that somebody else does not say is wrong.

MR. HARVIE: I sympathize with your Lordship's comments on that and I would like to explain the position of our company. We do do business in Texas and Eastern Canada and we know what happens there because we are in the business but in Montana we do not do business there. We have made a conscientous and determined effort to find out all we could but it is not complete.

THE CHAIRMAN: You say you are not in the same position as if you were doing business there?

MR. HARVIE: That is exactly it and if we were doing business there we would know the exact cost. As it is now we are only an outsider who can go down there and get such information as we can get from inquiry.

THE CHAIRMAN: Not to prolong this interjection unduly, Mr. Miller is going to give further evidence but it has been suggested here that Mr. Plotkins does business with Montana.

MR. FRAWLEY: Well he can speak for himself. Not to any great extent now, Mr. Plotkins.

MR. PLOTKINS: No, I am a producer in Montana and I am familiar with conditions but I do not think I would be qualified to give costs.

THE CHAIRMAN: Who do you think would be?

MR. PLOTKINS: That is what I was going to say. Mr. Johnston, who is a member of the British American Producing Company with headquarters at Shelby, and also a refiner and marketer of wide experience and at present the president of a new organization that is producing and refining in Montana, in Northern Montana, I believe that if he were made available here and was told what was expected, what information was wanted, I feel that he is quite competent to give it and then there is another man down there, Mr. Peak, that is a former employee of the Maple Leaf who is now Sales Manager of the Northwest Refining Company and he has very wide experience and he should be in a position to give us the true competitive situation in Northern Montana, that is the refiner's position in Northern Montana with regard to

Canada and with reference to the other States in which they market.

THE CHAIRMAN: What Company do you say he is with now?

MR. PLOTKINS: He is with the Northwest Refining Company at Cutbank.

THE CHAIRMAN: Well you mentioned Mr. Johnston, is he associated with your company, Mr. Miller?

WITNESS: He was, sir. He looked after our production in the State of Montana before we came out of there and he is now in business for himself.

Q He is not connected with your company?

A No, sir.

Q I mean you cannot command his attendance?

A Oh, no.

MR. HARIVE: That matter came up in connection with the pipeline here and we had a lot of information from him and it is on record that he is in no way under our control.

MR. PLOTKINS: I am satisfied he would be willing to come up here if Mr. Frawley, Commission Counsel, would ask him to come up and give us the benefit of his knowledge.

THE CHAIRMAN: You feel that he is qualified and willing to come?

WITNESS: I do not think, sir, that he would have actual refining costs in the State of Montana because he never has refined there. He did refine at one time, at least he was with a concern that refined at one time at Coutts, Alberta, which was the Northwest

Doloraine, which refinery he bought out but Mr. Johnston was in charge of sales and not in refinery operations.

THE CHAIRMAN: And not refinery?

A No, sir.

Q MR. PLOTKINS: Mr. Miller, I think you are mistaken, Mr. Johnston was president and general manager of the --

A Quite right.

Q I do not recall the refining name of the refinery in Shelby, Montana, for a number of years.

A He was vice-president and sales manager of the Northwest Deloraine Company at Coutts.

Q But previous to that he owned and operated, with his father and other associates, a refinery at Shelby?

A At Shelby. I was speaking of Coutts. I did not know that.

Q Another thing I wish to point out to the Commission, Mr. Peak's Company markets in Canada ----

THE CHAIRMAN: Who is Mr. Peak?

MR. PLOTKINS: He is sales manager for the Northwest Refining Company at Cutbank and they market through the 77 Oil Company and their operations are open to scrutiny.

MR. FRAWLEY: We have their prices.

MR. PLOTKINS: I mean the refinery costs of the Northwest Refining Company.

MR. FRAWLEY: I would be very happy if we could get the Northwest's refining costs.

WITNESS: Of course, Mr. Chairman ---

A. H. Miller

MR. FRAWLEY: I do not think for a moment Mr. O'Neil would give us the Northwest Refining costs.

WITNESS: I think you are dealing with a different refinery, operating under an entirely different basis, without the stability which there is and has to be to a company such as ours or other major companies in Canada. Some of the small refineries in Montana, take Hole Brothers, as they were formerly the Highway Refinery in Montana, is in a very similar classification to the Highway Refineries that operate in Saskatchewan, small skimming plants; possibly since that he has added to his facilities but I do not think their operations can be compared in any way shape or form with our operations in Canada; in other words, they are operated entirely differently and not only are they operated entirely differently but they do not have to maintain their operation to give that stability to take care of the requirements of Western Canada, as we discussed before.

MR. FRAWLEY: Of course I know with all due respect to what Mr. Miller says, if I could get before this Commission the cost of a 2,000 barrel a day operation, I would be very happy to get it and I would make all proper requests to have it presented but I do not think it is possible to get that. We are working on the Texas Company now and we will know in a matter of days whether we will get it;

THE CHAIRMAN: Let us explore this for a minute or two and it may be well worth while. Now why is this so impossible? We have, as I understand you and

I have not checked up the Statutes or the regulations made thereunder, but all Counsel seem to be agreed that we have anti-dumping laws.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Which pertain to oil and gasoline, crude oil and gasoline.

MR. PLOTKINS: And kerosene.

THE CHAIRMAN: Yes. Now then there must be Canadian officials charged with the responsibility of knowing whether or not dumping is going on.

MR. FRAWLEY: Yes. Mr. White, the Customs collector at Coutts, and Mr. Legg, the auditor who audits his books, he lives in Calgary, those two gentlemen I have in mind, but I cannot do anything about it, as this goes on from day to day but I am going to bring you that information before we stop.

THE CHAIRMAN: You have in mind exploring it via Dominion Government officials?

MR. FRAWLEY: Yes, precisely that and Customs Brokers but I now accept the B. A.'s statement about it and then go on from there.

MR. PLOTKINS: It just occurred to me that we can go considerably further. I got into trouble with some importers down in Minnoapolis and the Dominion Government has power and it does send its accountants and its officers right in to the refineries, away down into Louisiana to check their costs, to check their operations in their entirety. Now surely the Dominion Government can do the same thing in Montana.

MR. FRAWLEY: That has been done but you cannot do it just by the simple expediency of having the Dominion Government officials go into the Texas Company at Sunburst and then bring the costs up here.

MR. PLOTKINS: That is what they have done, if they saw fit, before they agreed to certain values for sales tax.

MR. FRAWLEY: Yes, for their purposes but the Texas Corporation would not permit them to bring that information to this Commission, would not permit the Federal officials.

(Go to Page 10,918)

Q MR. PLOTKINS: That is a different matter but if there is an accusation of dumping surely the public is entitled to know.

THE CHAIRMAN: I do not know why - there may be a good reason, but I do not know, if there is an official of the Dominion Government why he should not tell this Commission anything he knows, if it is pertinent. Do you?

MR. FRAWLEY: If he went under the Customs Act into Mr. Macleod's client's refinery at Sunburst and looked at its costs for the purpose of satisfying himself that there was no dumping or there was dumping and he sends that information to Ottawa and he gets that by virtue of his position under the Customs Act and doubtless under an International arrangement, I do not know. But I would think that he would not be able to disclose that to anybody.

THE CHAIRMAN: If that is a subject of International treaty it is all right. But if it is not-----

MR. PLOTKINS: I do not believe it is, the way I understand it. In fact, it is, my information is that the Canadian Customs has a very simple remedy when they won't give information. They just black-list them and won't let them import into Canada. There is no International treaty.

MR. FRAWLEY: We will eliminate the International treaty. That does not matter how they get it. I am only surmising again. I will ask the people here and I will ask the people in Coutts. Mr. Appleton tells me the collector at Coutts is a very experienced man. He knows all about these things. I will find out if he knows the Texas costs and if he is in a position to disclose them.

THE CHAIRMAN: Perhaps the difficulty will be gotten over in another way by Dr. Frey having the costs. What has been going on about that. We should know yes or no about that soon.

MR. FRAWLEY: Mr. Macleod said his people in New York have not notified him. They have our position definitely but we have no answer back.

MR. COMMISSIONER LIPSETT: That dumping question. Does it depend solely on cost. That is to say before dumping can take place does it have to be below the cost. Suppose you had two prices at the refinery in Montana, an 8 cent price for export to Canada and 10 cents for the same commodity for Montana consumption. Is that not dumping?

MR. FRAWLEY: I think you are quite right. Every invoice from a foreign country that I ever saw, it has two columns, one the fair market value for home consumption, so many pounds or dollars, and then the fair market price for import into Canada so many dollars. There must be a correlation between those two or there is some infraction of the anti-dumping law.

MR. COMMISSIONER LIPSETT: It is scarcely fair to put the question to you offhand.

MR. FRAWLEY: No, I have not looked into it. But that will have to be disposed of substantively as far as I am concerned.

THE CHAIRMAN: Even if we do not get the costs, the Texas Company's reply would be "Well, the Customs people in Canada have dealt with this." But the Imperial and the B. A. seem to have a view that the Government of Canada has been singularly negligent in connection with enforcing the law that is on the Statute books.

MR. FRAWLEY: I will ask Mr. Miller. We had some difference of opinion the other day with Mr. Macleod about that. Do you point your finger at the Texas Company the same as you do the small importers?

A I did not say at any time, Mr. Frawley, that a product had to be sold below cost to constitute dumping. What I say constitutes dumping, which I think is reasonably correct, is that when products are sold into Canada below the fair market price in the United States, and whilst I am not quite familiar, and I have not got it on my finger-tips, I think the regulations under the Act give that quite clearly, don't they?

MR. HARVIE: I think it does.

A In other words, if the fair value of the article in Montana is 10 cents that it should not be sold into Alberta for anything less. I think that is what it really constitutes, regardless of cost. In other words, that does constitute dumping if they sell below the fair market value in Montana.

Q MR. COMMISSIONER LIPSETT: When you say "fair value" you mean the fair selling value as distinct from the producing cost?

A Yes, the fair selling value is the price that it is naturally sold at.

MR. FRAWLEY: If the Texas Company were called, the price they pay is 6¼ cents U. S. and 7½ cents Imperial. We have to compare, before we can come to any conclusion about dumping, we have to compare the prices at which that same refinery sells to people in Montana?

A I would think so.

A. H. Miller.

Q Then your man cannot do that. We are striving to do it. We are making some analysis of that and when the time comes we will have to put that in. But that is a big operation but that is a thing we should endeavour to clear up. Mr. Macleod is prepared to meet any allegation that there is any dumping in it. It stands for examination. These brokers are coming and they will give evidence very likely.

THE CHAIRMAN: All right.

Q MR. HARVIE: Mr. Miller, have you got any further comments you wish to make on Mr. Dempsey's evidence at the moment, the subject covered by him, or do you wish to continue with your brief?

A I have nothing else.

Q I believe you are at page 15 of Volume 2 of your brief?

A Right.

Q And referring to statement 16 and graph 16?

A Yes.

Q THE CHAIRMAN: At page what?

A At page 15, Sir, of Volume 2. I was referring to statement 16 and graph 16. There is no graph. It is chart 16 in this book. Page 15 of Volume 2.

Q Yes?

A Before proceeding, the information shown on the statements covering 8 pages, I feel we should deal with because we are coming to that later.

Q MR. HARVIE: That is in graph?

A Yes, graph. It adds to the difficulties of operating in the Province of Alberta and in that connection we sent out to our agents in Alberta a questionnaire. We asked them to answer as nearly accurately as possible the following

A. H. Miller.

questions on that questionnaire, which are now chart 16.

Q MR. HARVIE: How recently was that done?

THE CHAIRMAN: Page 16 of Exhibit "444" you are referring to?

A Yes. That was sent out on January 31, 1939. It says:

AGENT'S QUESTIONNAIRE

Will you please answer the following questions as accurately as possible.

Name of Town.................... Name of Agent.................. No. of years as Agent..........

1. Total yearly sales, all products, delivered to the Country by our Agent's trucks..................
2. How many miles agent's trucks travel yearly on Country business?..........................
3. What percentage of deliveries would be full loads of petroleum products?....................
4. What percentage of deliveries would be part loads of petroleum products?....................
5. Would it be possible, or impossible, to deliver the farmers' petroleum products when it suited your convenience; that is, could you start on a definite route, making part load deliveries until your full load has been delivered?...........
6. Are there many occasions when you cannot make delivery due to weather creating bad road conditions?,........... and at what periods of the year?.......................
7. Do you conduct other business in addition to our agency?...........................
8. If so, are you able to make use of your trucks and other facilities in this other business; that is, you might haul gravel, grain, implements, or other farm produce?..........................

A. H. Miller.

9. Unless you were able to diversify your truck operations by other business to make use of your truck equipment, could you afford to make delivery to the Country on your present cartage remunerations?....................

10. If you sold all the requirements of petroleum products at your agency and adjacent territory, that is, if you had an exclusive franchise, how many trucks do you estimate you would have to operate to take care of all the business?..

11. Why is it that small light delivery trucks are essential, as against large trucks?....................................

Date....................   ....
Agent's Signature.

That was sent to our agents and they replied to that questionnaire, which replies are as illustrated on the 8 pages in the book of graphs as shown as 16. That is the questionnaire, and then these next 8 pages illustrate the agency points. The first is Acadia Valley, and the years of service of the agent is 10, you will notice. Total sales, 1937, were 31,051 gallons. Now, I want to explain this next figure, country delivery in Acadia Valley because in every point that is marked with an X this explanation covers them all. You will note that the total sales in 1937 were 31,051 gallons. His country deliveries were 48,000 gallons. That is due to the sale of Turner Valley naphtha, which our agent would come into Calgary and buy. Therefore, he has shown that as deliveries to the country and in order not to change their questionnaire in any way we let that figure ride. We have marked an X and there are only a very few of those. So his percentage of total to the country was

154.58. His annual miles run was 10,000 miles. Now, we come to petroleum products. Full loads were 2% and the percentage of part loads was 98%. Delivery at our convenience. No. Weather conditions, delivery impossible due to weather conditions. No. And what period of the year, blank. Has agent other business. Yes. Is truck used in this. Yes. Can agent presently make delivery without this. No. Number of trucks required under exclusive franchise, 1. Why light deliveries vs. large trucks. Economical for small deliveries. Now, each one of these represents an agency point, such as Acadia Valley, Acme, Arrowwood, Bassano and so forth. They are off these sheets there but we have questionnaires to confirm these, if you would like them, Mr. Frawley. Now, you turn over on to the last page and it gives you-----

Q THE CHAIRMAN: What does "years s-e-r-y" mean?

A That is the number of years each one of these men have been in the service as an agent.

Q I just want to understand that. It is the number of years he has been with your company?

A Yes, Sir.

MR. HARVIE: That is in answer to the questions at the top of the agent's questionnaire, before Question 1. Number of years as agent.

THE CHAIRMAN: Yes.

A On the 8th page there, average years of service was 5.76. Total sales for 1937, averaged 57,710 gallons per agency point. Country deliveries averaged 38,303 gallons per country point.

MR. COMMISSIONER LIPSETT: Which page?

A The last page. Page 8. It gives you the recapitulation.

Percentage of the total country deliveries to the total sales is 74.80. Average annual miles run, that is out of a total of 883,186 miles run on country business by our agents the average is 8,575 miles per agency. Then it shows the full loads under petroleum products. There is the heading Full Loads, and the percentage , in other words, is 45% none; 42% under 10%; 6% over 10% and under 30%; and 7% over 30% and under 50%. Delivered at our convenience; 98% say it is impossible and 2% say possible at certain seasons of the year. 90% say that they are hindered by weather conditions and 10% say they are not. 96% of these agents had some other business in addition to operating our agencies.

THE CHAIRMAN: Where are you getting these figures?

A Down here, Sir.

Q Oh, yes.

A The headings are all carried through to this recapitulation of the total.

Q I thought it was a continuation of the other and your recapitulation started in here.

MR. HARVIE: On page 3 at the foot there appears to be a summary and then the same information appears again on page 7, the last page?

A That is right.

Q On page 3, that is a summary of the Calgary division?

A That is a Calgary division and the others are the Edmonton division, and the recapitulation is the total for Alberta.

Q MR. COMMISSIONER LIPSETT: The first three pages are the Calgary division?

A Yes, Sir, down to the first total there, Mr. Commissioner, and these are for the Edmonton division and the totals. I think we were at the number of trucks used. 77% said

their truck was used in connection with other business. Can agent presently make delivery without this, and 93% say no. Number of trucks required under exclusive franchise, that is if the man had all the business. 2% say 5 trucks, 2% 4 trucks, 16% 3 trucks, 45% 2 trucks, 32% 1 truck and 3 were unanswered. Why light deliveries vs. large trucks. 96% in favour of light trucks because economical and easy to operate for delivery of small loads on bad roads. The total recapitalation for these, or the total average rather, of years service is 5.69, covering both divisions. 54,159 gallons is the average gallons sold per agency. The amount of that delivered to the country is 40,935 and the annual miles run per agent is 8,656 miles. We thought that would be interesting because it does give the agent's conception of this agency business or farmer sales in the Province of Alberta, and later on I am coming to the operation, as I said the other day, that we had taken 21 points in the Province of Alberta and had tried to estimate what our saving would be if we did all the business and under the existing operations and policy and we found there was no saving. We thought that questionnaire would answer possibly some of the reasons as to why there would not be.

MR. COMMISSIONER LIPSETT: Just for fear there is any slip. I notice in the recapitulation on the end of the 7th page you take the Edmonton division first. Is that correct now so far as what you have given the Calgary division first?

MR. HARVIE: That is correct.

A The first half, Acme, Arrowwood, Bassano, Bow Island, Brooks, Carbon, I have the names of all the agencies on mine but they are not on yours.

MR. COMMISSIONER LIPSETT: I was just afraid there might be a mistake.

MR. HARVIE: Yes, I have checked that.

A So we say on page 15:

Assuming that one company had the exclusive franchise in a certain district the company or its agent would have to devote 100% of his time to the agency business, and all equipment and miscellaneous cost would have to be maintained exclusively for its operation. Storage capacity, trucks, and drum investment of the combined companies in operation in that particular district would have to be maintained by the company operating on an exclusive basis, - and may I interject there to say within reason as far as capacity of tanks is concerned, because I realize there are a few points where there might be superfluous tanks under exclusive operation, - which is necessary and essential in order to take care of the peak load, which in many areas comes in two seasons of the year, spring and fall. This also is important and necessary when the large farm gallonage is considered, which also necessitates additional truck equipment.

The average farmer buys 1 to 2 or 3 drums at a time, and we estimate the mileage on average sales delivered would range from 10 to 25 miles the round trip.

The size of farms and mechanization determine the quantities delivered at any one time, and just how often deliveries are essential. For example: Farmer "A" may operate a section of land exclusively by machinery. This might call for full load deliveries every other day in certain seasons of the year, whereas in the same district Farmer "B" may be operating

a quarter or half section, partly mechanized, which would call for small deliveries periodically.

We mention that based on actual experience.

Regardless of the size of farm or equipment used, each operation of the season will vary between "A" and "B". "A" may spring-plough earlier or later than "B". The same would apply to summerfallow, and more particularly to harvest. Harvest, being the most anxious and important of the operations, makes it imperative for requirements to be on hand immediately they are required and according to the volume of the work undertaken.

I do not think there is any doubt about that either, that is to those of us who know western farming agricultural operations as we do.

With these variations it would be impossible for anyone to regulate and bring about synchronization of deliveries in any particular area and consequently deliveries and service, under existing operations, are made to suit the requirements of the consumer, permitting him to buy what he considers is best for his particular requirements, if, as and when they are required.

In theory it might be considered that reduced mileage and more economical delivery could be made by large trucks carrying large loads. It is found, however, that this is utterly impossible and uneconomical due both to weather and bad road conditions, even if large deliveries could be arranged, and from the actual experience of many agents in the field due to higher operating costs resulting from heavier gasolene consumption, license fees, depreciation, etc.

Many of our experienced agents have in recent years found it more economical to operate a light delivery truck for farm deliveries in place of larger equipment.

We have analyzed 21 small, medium and large points now in operation and the information shows that the present form of competitive wide distribution is more economical than by operating under an exclusive franchise in any territory.

In order to make a fair comparison we have made three classifications, namely: Small Agencies, Medium Agencies and Large Agencies. I may say that when we go into these figures further the small agencies will show definitely a greater cost by exclusive operations and the medium ones come next and whilst the larger ones will still show a saving under this competitive distribution as it exists to-day as against exclusive franchise, nevertheless the larger points are very much in the minority as far as the Prairie Provinces are concerned. That also applies to Alberta. Therefore, we consider the small point as having a total potential of from 60,000 to 105,000 gallons and the B. A.'s gallonage is 30,000 to 50,000. The Medium Agencies have a total potential of from 106,000 to 230,000 gallons and the B. A.'s share of the gallonage is 45,000 to 80,000 gallons. The Large Agencies, the total potential, 231,000 to 540,000 gallons and the B. A.'s gallonage 75,000 to 200,000 gallons. Now, I would like to refer you to statement No. 17.

THE CHAIRMAN: I think we will rise now.

(At this stage the Hearing was adjourned until 10:30 A. M. 11th July, 1939.)

:::::::::::::::::::

The Province of Alberta

IN THE MATTER OF THE PUBLIC
INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 11th, 1939

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10.30 A. M. Session
11th July, 1939

ALFRED HERBERT MILLER, having been recalled.

Q MR. FRAWLEY: All right, Mr. Miller.

A Just before continuing at Page 17, I would like to submit a wire that was received from our people in Saskatchewan of the figures imported into Saskatchewan from Alberta and from the United States with gallonage as given to us by the Director of Gasoline Taxation in Saskatchewan, which reads as follows:

"A. H. Miller, Palliser Hotel, Calgary.
"Imports to Saskatchewan across the U. S. boundary
"truck and tank car in 1938 1,652,324 gallons;
"January to May 31st, 1939 547,101 gallons. Stop
"Data of point of origin not kept by Commission,
"therefore impossible to determine whether Montana
"or Group 3. Stop.'

Group 3 is Oklahoma.

"Importations from Alberta in 1938 are ---

Q MAJOR LIPSETT: Into Saskatchewan?

A Importations from Alberta into Saskatchewan in 1938
"2,967,755 gallons. Stop. To May this year,
"1,770,689 gallons. Stop. No record kept
"as in above instance as Commission interested
"only in tax collected and not origin."

(TELEGRAM PRODUCED HERE MARKED AS EXHIBIT "465")

Q THE CHAIRMAN: And who did you say Mr. H. H. Burke was?

A Mr. Burke is our Western Sales Manager and the information

was supplied to him yesterday from the Gas Tax Commissioner of the Saskatchewan Government.

Q Yes?

A Before proceeding too, we have mentioned freight rates on many occasions during the last week and I would like to submit the competitive rail and truck freight rates under the following headings ---

Q MR. HARVIE: I think if you would just hand it to the Commission and they can follow it while you are reading it.

MR. FRAWLEY: It should be marked.

MR. HARVIE: Yes, and it is easier to follow.

A Present rail rates from Calgary, from Moose Jaw or Regina showing the mileage up to 300 miles, the rate per 100 lbs and that is converted into cents per gallon. The British American Oil Company ---- (COMPARATIVE FREIGHT RATES HERE MARKED AS EXHIBIT 466)

Q MR. HARVIE: That is in red?

A In red. The rate per 100 pounds is in black. The conversion to the gallonage cost is in red.

Q MR. FRAWLEY: This is on refined products only?

A Refined products. The next is the British American Oil Company's estimated cost, 2,000 gallon units, from Calgary or Moose Jaw and that is in black, 100 pounds cost, according to the mileage as shown on the first table and converted into cents cost in red.

The next column is the new Ontario rail truck competitive rates which are to be effective soon. I understand these rates will be made effective about July 15th or August 1st. I mentioned

last week there was to be a further reduction and these are the reduced rates.

Q MR. FRAWLEY: What does that mean, "rail-truck competitive rates"?

A It just means that the railways are instituting a freight rate to meet or come below the cost of trucking operations.

Q But they are rail rates?

A Rail rates.

Q Those are rail rates?

A Yes, and in connection with that we would like to submit a Graph which shows in graph form the information as read off under the heading of competitive rail - truck freight rates.

Q THE CHAIRMAN: Now I just want to understand this Exhibit, Exhibit "466", the first column is your mileage?

A Yes.

Q The question of rail rates from Calgary, Moose Jaw or Regina to where?

A To destinations according to that mileage. For instance the first ---

Q In either direction?

A Yes, anywhere we ship, the first is 20 miles, 12 cents a hundred; converted to gallons .96 cents per gallon.

Q Yes, and the opposite cost, the opposite line?

A That is our estimated trucking cost; in other words on 20 miles --

Q That is 3.40 against 12?

A Yes.

Q And the .27 is against .96?

A That is right, sir.

Q Then you go over ---

A To the new freight rates to be effective July 15th or August 1st in Ontario. The other day, the reason that I would like to submit this is that we showed that our rates in the West were so much higher than it was in the East and I mentioned that, while we had a difference in the West, of 2.35 cents, the average over Eastern freight rates paid, I estimated it would come close to 3 cents in the West when these new rates became effective. Now I understand that there is some talk of some reduced rates in the West but we have not had anything official and we do not know very much about them yet.

Q MAJOR LIPSETT: This first mileage of 20 miles, Mr. Miller, does that mean that the railways are charging 3 times as much for 20 miles in the West as they are charging or propose to charge in Ontario?

A Correct, that is correct.

Q .32 cents in Ontario and .96 cents for 20 miles in the West?

A That is correct, sir.

Q And when you come to the 100-mile mileage they are charging nearly double the rates in the West that they are charging in the East?

A That is correct, sir.

Q MR. FRAWLEY: These are the new ones?

A That condition was before the new rate went into effect in the East. As I said the other day, whilst these are reduced, they are still very much lower than they are in the West and always have been since its inception.

Q MAJOR LIPSETT: Do you know, Mr. Miller, if

any steps have been taken by any of the oil companies in the West to get a thing like that rectified?

A Yes, we have. We have made every effort we could for a number of years to received reductions but we have never, so far, have not been successful. There is a move underway now, I believe, to make reductions.

Q MR. FRAWLEY: There is an application by the Government and the Alberta Petroleum Association only.

MR. HARVIE: What do you mean by "only"?

MR. FRAWLEY: I mean the major oil companies are not parties to the applications.

MR. HARVIE: Possibly the major oil companies have taken the matter up long before.

WITNESS: We were dealing with that, Mr. Frawley, before the Alberta Petroleum Association came into effect.

Q MR. PLOTKINS: Mr. Miller, what basis is this trucking rate, you say "estimated truck costs", what basis is that, on a mileage basis?

A That is what we estimate we can truck for in 2,000 gallon units.

Q Now is that your actual cost or is that the cost that includes a profit for the trucking operation?

A That is our cost.

Q That is your actual cost. Now I noticed 20 miles, you have apparently the same rate per mile as 100 miles, that is right is it not, you have .27 for 20 miles and

100 miles $1.30, and that would be the 27?

A Right.

Q Well now in your experience, Mr. Miller, with trucks and you no doubt know that in very short distances the cost goes up considerably, for instance 20 miles, you have the time factor in loading and unloading that is out of all proportion to the running time and it must be absorbed some place in the cost and I notice you have not made provision for that?

A What you say may be right, Mr. Plotkins, but this table here has been set up by our trucking experts and they are more conversant with that than I am. They will stand behind these rates so far as their trucking costs are concerned.

Q THE CHAIRMAN: Then you want to offer this chart, Mr. Miller?

A The Chart shows the present rail rates ex Calgary, Moose Jaw and Regina, that is the black line, the top line. The dotted heavy lines are the B. A. Oil Company's estimated truck costs ex Calgary and Moose Jaw; the dotted line below that is the new Ontario rail rates to be effective July 15th or August 1st; the lower line, dotted line, is the standard crude rate. Now as I said, our trucking rates in the West are higher than our trucking rates in the East naturally because of the road conditions. However, the rail rates in the East are lower than our trucking rates in the West.

Q MR. FRAWLEY: What is this standard crude rate you have there?

A That is the standard crude rate now in effect, Mr. Frawley,

on crude.

Q That is, that accepts the present rates from Calgary to Moose Jaw and Regina, you do not call those "standard Rates", do I take that to mean ----

A That is the standard crude rate.

Q From Calgary to Moose Jaw and from Calgary to Regina?

A Correct.

Q That special rate they put in to meet pipe line competition, I would not call that "a standard crude rate", however, I just wanted to understand it. You know that rate only runs from Calgary to Regina and it does not run from Calgary to a point even 5 miles beyond Regina, I just wondered what that meant?

A That runs from Calgary to Moose Jaw and Regina.

Q And those are the only two points in Western Canada where that rate is effective, that 18½ and 19 cent rate for 100 pounds?

A Yes, this is all based Calgary and Regina or Moose Jaw and Regina rather, ex Calgary.

Q So long as the Commission understands that standard rate is the rate in effect now from Calgary to Moose Jaw?

A Right.

Q So far as your company is concerned?

A Right.

THE CHAIRMAN: We will then mark that Chart as an Exhibit.

(CHART PRODUCED HERE MARKED AS EXHIBIT "467")

WITNESS: I might say in connection with the trucking rates of ours in the West, we could not

take advantage of them because we had to ship our requirements to our agency points by rail, therefore we had to pay the higher rates.

Q THE CHAIRMAN: Under your contracts with the railways whereby you had your bulk stations on their land, is that it?

A That is right, sir. Our Agreement stipulated we must ship by rail.

Q MR. HARVIE: Is that still the case?

A Not with us, that has been changed, it was changed in, changed early this year, 1939.

Q MR. PLOTKINS: Mr. Miller, this new Ontario rail-truck competitive rate, is that on an agreed basis or is that the general open rate?

A That is on an agreed basis.

Q So that only applies to companies who make particular agreements with the railways for their business?

A Quite right, everybody has the option to make that agreement.

Q So itis not an open rate?

A No. Everybody has the right though to accept that rate.

Q THE CHAIRMAN: When do you say that is going into effect?

A July 15th or August 1st.

Q MR. PLOTKINS: I might mention to the Commission that agreed rate stipulates, so far as I understand, that the shipper will make all shipments by rail and none by truck?

A No, it does not stipulate that, Mr. Plotkins. There are provisions of the quantities which you will ship by truck, that they will be reduced, and when I say reduced, the

maximum capacity that we can use is a 1200-tank truck as against formerly possibly 2500 gallons.

Q And will there be any penalty to be paid back to the railway in connection with the trucking?

A Once we enter into an Agreement with them we have to live up to the agreement and there would be penalties no doubt if we violated the contracts we made.

Q What I mean is any shipment you make by truck will be liable to the railway for any differentials?

A We will not make any shipments by truck because we agree not to, except up to 1200 gallon capacity for certain mileage.

Q For a certain mileage?

A Yes.

Q THE CHAIRMAN: Now is this true of both railways?

A Yes.

Q That rate which you say is coming into effect not later than the 1st of August will be a rate that both railways will accept?

A It is a joint railway arrangement.

Q MR. FRAWLEY: The railways were authorized to enter into these agreements by an amendment made to the Transport Act, the Railway Act last year, a special amendment, Mr. Chairman.

WITNESS: Now to go back to Page 17 of the volume ---

Q MR. FRAWLEY: Would that not apply here, you speak of that being in Ontario, that Statute must run throughout Canada, the railways can make a similar arrangement here, cannot they?

A No, the railways received special dispensation from Parliament about a year ago to enable them to meet competition.

Q Yes, quite, but it is not confined to the Province of Ontario, it can be done here?

A If they wish to.

Q That is what I mean.

A Yes. We will refer now to Statement 17 and Graph 17.

Statement No. 17 is composed of 21 pages, numbered consecutively 1 to 21 inclusive, and covers an analysis of 21 British American Oil Company Agency points in the Province of Alberta.

Sheets 1 to 21, inclusive, are further summarized in the Brief on "DISTRIBUTION" as pages 18 to 22 inclusive.

Each of the 21 Agency points are analyzed on the basis of present operation that is as far as we are concerned 1938 operations whereby several companies operate at each of these points, as against operation at the point on the basis of one company having an exclusive franchise covering the agency point and the adjacent territory.

On the analysis of operating cost under the present basis of carrying on business at the agency point we give the cost of The British American Oil Company's operation at the point, as closely as same can be estimated under the existing method of operation and book-keeping.

A. H. Miller

On the analysis of Operating Cost whereby one Company would have the exclusive franchise of the business in the town and adjacent territory, we have estimated the cost of doing business based on the potential business of the territory and the equipment and help required to handle that business at that point in question.

We go then to that 1 to 21 list and I would like to deal with those for a minute.

(Go to Page 10,941)

A The first point there which is also illustrated by the graph in 17, is Arrowwood, I may say that these points are fairly representative of the Province of Alberta because we have taken them from different sections. The point of Arrowwood has a total potential of approximately 105,000 gallons and under the next heading it shows the number of companies operating at Arrowwood under three classifications, A, B and C. A is operating with equipment which includes their own; B operating without equipment and C, the B. A. equipment is included in A. Therefore, in Arrowwood there are three companies operating.

Q MR. HARVIE: All on the basis of A?

A Yes, all on the basis of A. Storage tanks, total number 4; approximate gallonage capacity, 48,000 gallons. British American Oil business, dealers, 3,554 gallons; farmers, 13,602 gallons, making a total of 17,156 gallons. The commissions that we paid in 1938 were $193,56. Estimated fixed charges, that is our taxes, depreciation, interest on investment of the plant, repairs and other things are $235.92, with total costs of $429.48, the cost per gallon was 2.50 cents per gallon. We add 5% on our investment, $84.60, which makes a total of $514.08, or a total cost of 2.98 cents per gallon. Under the exclusive franchise operation, that is if we had 100% of the business and no interference we still would have the same potential of 105,000. The number of companies would be one. We still feel we would require the four storage tanks of 48,000 gallons capacity, for the reasons formerly outlined due to the peak load necessity of having sufficient volume to take care of the requirements when the

demand is made. The salary position, we would have to have an agent 12 months in the year and we do not think we could employ an agent under $150.00 a month in that case, which would be $1800.00. Estimated truck costs, our maintenance, would be a quarter of a cent per gallon; that is, $262.50. Depreciation on that truck would be $240.00, making a total of $502.50. The estimated fixed charges would be $1,199.45, giving us a total cost of $3,501.95, or giving us a total cost per gallon of 3.34 cents. If we add 5% interest on the investment to that it would give us a total cost of $3,988.75, or a total cost of 3.80 cents per gallon, as against a cost of 2.98 cents per gallon on the present basis of the commission agent. Now, the reason for that is, as I said yesterday, in the agent's questionnaire, in the graph book under 16, it is because it is a part time proposition with our agents. I think 92 or 96% of these agents said that they were in some other business and some percentage said that they were able to use all their facilities, their 'phone, their office building and heat and light and help and the truck in connection with their business, and, therefore, only used it part time or when it was necessary in our business. That covers Arrowwood, as shown in graph 1.

Q THE CHAIRMAN: Do I understand you to say if you had all the business the cost per gallon would be 3.80 cents as against the cost of 2.98 cents, as it is?

A That is right, Sir. Because for the reason I have just explained, that the commission man having other interests and our business, according to its volume, if it is a small volume it is a small part of his business. It is a side-line, in other words. As volume increases at other points

he would possibly devote more time and more expense to it. That particularly applies, Mr. Chairman, at the small and medium points, not only in the Province of Alberta but in Manitoba and Saskatchewan. Because our operation has always been on a commission basis, part time operation for the man. That, I think, is clearly emphasized in that agent's questionnaire.

Q MR. COMMISSIONER LIPSETT: Have you taken into account that you would not need, perhaps, so many stations as are now in use for the handling of all the business, if you had it exclusively?

A Yes, Sir. I do not think it would make any difference. If the agency point where you operated a 10-mile radius or a 25-mile radius, you would have extra volume and, therefore, you would have extra costs, all of which would have to be maintained 100% by the company, or the man with that exclusive franchise.

Q It has been rather stressed to us that the whole idea in spreading out everywhere all over the country was to get more volume. That was the big thing, and provide service to the people, true. But from a business standpoint the idea was to get volume?

A That is quite true, Mr. Chairman, that volume does reduce cost, but after you get up to a certain volume there is not very much in the fixed charges that you can reduce. Your administration costs or your actual operation, salaries, trucks, depreciation, and all those things, must go on. As I said, that applies particularly - as we go through here I have set these up in three classifications, the small points, the medium points and the large points. I think we have about 7 of each, the small points definitely are, without

doubt,anyway it can be figured out more expensive to operate on the salaried basic or a company operated basis with one company having all the business than it is on the present basis with other companies having part.

Q MR. FRAWLEY: What you mean is in Arrowwood you would have the exclusive business in Arrowwood?

A In Arrowwood and the territory in the Arrowwood territory.

Q Yes. But I mean it is not a Provincial-wide franchise you are speaking of now, of course?

A The same thing would apply, Mr. Frawley.

Q If it would that is fine. But as far as I am concerned, I thought you took the Arrowwood picture and told your picture as it would exist if you had all the business at Arrowwood and leaving the points adjacent in the Arrowwood country as they are?

A Even if you took some of them out and made, as I said, your radius of country out of Arrowwood at 10 miles or exceeded that to 25 miles, you will find you won't reduce your cost to any great extent.

Q Perhaps my interruption was perfectly useless, and futile, but I only want to make it clear you are in this Exhibit setting up the picture as it would exist if you had the exclusive business at Arrowwood and then you go to Elk Point and Queenstown and so on?

A I have picked out 21 points which I think are representative of the Province of Alberta, under three classifications, so as to give a fair comparison for the entire Province. I think, Mr. Frawley, as we go on, that you will agree possibly that it does not make any difference whether you extend your area.

Q I was trying to help.

A Or reduce it. You would still have to have more drivers and you would have more trucks and you would have more wages and more expense. At Arrowwood you notice on the graph in the first six months 58.62% of the total business is done at Arrowwood. The second six months, 41.38% and in the four months-----

THE CHAIRMAN: On graph what?

A On graph 1, Arrowwood, Sir. In other words, in the four months' period approximately 40% of our total business was done, that is July, August, September and October. We show our sales for 1937-1938. We started off in January at 100 as the base and you can see the fluctuation running up to 1356% in the month of May, 1937.

Q MR. COMMISSIONER LIPSETT: Just before you pass from this statement, dealing with Arrowwood, Mr. Miller. Is not your comparison on an inaccurate basis. In this respect, you are putting down in the top part your cost as $514.00?

A Yes.

Q For the proportion that you handle?

A Yes.

Q When you come to compare that with the second set of costs, $3,988.00, that is comparable with the costs of the three companies operating there at the present time, is it not, and not merely the cost of the B. A.?

A That is what I say if we had all the business and we were in there by ourselves, that would be as ~~nearly as~~ possible we can figure, our costs.

MR. HARVIE: You use a different divisor?

Q MR. COMMISSIONER LIPSETT: But your operating costs are $514

and must not that be multiplied by three to bring out the cost of the three companies operating?

MR. HARVIE: I think it is divided by the 17,000 gallons----

A Quite right.

MR. HARVIE: Whereas the $3,988.00 figure is divided by the 105,000 gallons?

A It is the gallonage into the total costs, Mr. Commissioner.

Q MR. COMMISSIONER LIPSETT: The three companies are operating and I suppose the cost of each company would be approximatel; the same, would it not?

A Well, I suppose their cost would be fairly comparable to our yes.

Q That would be costing, your cost is $514.00 at present, and you would have $1500.00?

A The three companies?

Q The three companies, yes?

MR. MACLEOD: It would increase your gallonage t

A At the same time these three companies divide that 105,000 gallons. Our total of that 105,000 was only 17,156. Now, the total potential is 105,000 and divided into our total cost;

Q MR. COMMISSIONER LIPSETT: If you treated it on a gallonage basis, if it costs you $514.00 to handle 17,000 barrels?

A Gallons.

Q Gallons. It would cost six times that much to handle 105,00(gallons, would it not?

A Not on a commission basis, no, Sir. As I say, the secret of the operation is the fact that the man is using all his facilities that he uses in connection with his other business

to operate ours.

Q Yes?

A All we have there is a warehouse and tank and the goods consigned.

Q Does that not apply equally to the other oil companies?

A I would think so. They are all on a commission basis I think

Q And on that commission basis would not your figure of $514.00 have to be multiplied by 6 to take care of the remaining gallonage?

A As a matter of fact, they might have, the other two companies if they split equally the balance of that gallonage, their cost per gallon might be lower than mine on a commission basi

Q Possibly a little. But I would like to ask why, supposing you were handling all the 105,000 gallons instead of the 17,000, why you would have to appoint a special agent. Why could it not be done by a man doing it as part of his ordinary business?

A We could have a commission agent or a salaried operation for that gallonage. In other words, we feel that as a matter of fact that until we get up to 150,000 gallons we would be better off on a commission basis than we would on a salaried basis. But our cost would run practically as high. We would pay that much more commission.

Q Just to clarify my own ideas, supposing you had this salaried man, would not you be bringing then the gasoline, leaving out the freight from the refinery direct to the consumer at this 3.80 cents?

A No, Sir, that would be our freight from the refinery point is separate to that cost of operating there. In other words, our goods would be shipped from the refinery to Arrowwood by rail on which we would pay freight. This is only covering the actual operating cost of the agency.

Q I understand that. It is only the operating cost I want to get your views about. If you had this salaried man as a full salaried man he is not entitled then, is he, to the dealer's spread on the gasoline?

A No. Commission agents are not getting any spread either, Sir. Commission agents only receive 1 cent per gallon in town for the sales he makes in town, and $2\frac{1}{4}$ cents for the sales he makes in the country.

Q But if you paid a man a full salary you would eliminate that

A The commissions are eliminated, yes, Sir. It is salary as against commission.

Q You eliminate 1 cont and 2 cents on 105,000 gallons?

A Quite right.

Q Would not that have to be credited against this?

A It is. We forget the commissions entirely in the 100% exclusive franchise. But the commissions are supplanted by a salary of $1800.00. We have to have a company-owned truck and that truck, according to our transportation department, would cost us for maintenance a quarter of a cent per gallon, which I think is reasonable. The depreciation on that truck would be $240.00 a year, which is something we do not have to have to-day. That is the agent's charge to-day. We have no trucks at any of these points to-day.

Q If the agent has a truck it has still got to be paid for to-day, has it not?

A Yes.

Q But that is not included in your comparable figure at the top, is it?

A No. That is his business using that, Mr. Commissioner.

I imagine in this particular case with such a small gallonage his truck, equipment and other facilities is possibly being used 80% in connection with his own business and only 20% in connection with ours. When we go in and operate, or likewise if the gallonage increases then on a commission basis that 20% time and facilities spent for us would possibly increase to 50, 60 or 70%.

Q You are allowing him to-day, aren't you, a commission which covers his own time and covers the use of his truck, whatever it is. If you put him on salary you eliminate all that commission, don't you?

A We eliminate the commission and pay a salary and then we have to operate the truck.

Q Just a moment. You have a charge for a truck in this set-up?

A Right.

Q Should not the commission that is being paid to-day on this 105,000 should not that be credited on the figure that you have given at the bottom of this statement?

A No, Sir, I do not think so because whilst we wash out the commissions we supplant that with the salary, which is greater than the commissions payable. In other words, we pay commissions there of $193.56 that year, and on an exclusive basis we figure we will pay a salary of $1800.00 or $1600.00 more.

Q Off that, surely, you have to give credit for the commissions that you are paying at present. If you do not give credit for that in this statement does it go to the benefit of the public or is it retained by the refinery?

A The position is just the reverse, as I see it.

Q THE CHAIRMAN: It reflects the difference between

the two, if you had the retaining of the commission or if you had gone on the other basis. If the three companies all handled for the 2.98 per gallon, assuming all the others are handling as efficiently as the B. A., and no matter who is handling it, the public does not care. It costs 2.98 cents to handle it?

A That is right, Sir.

Q You say now if you eliminate the present situation and give it all to us we have to set up a new handling system whereby these agencies that primarily attend to their own business would have to be 100%, as the case might be. At present you say it costs 2.98, no matter whether it is one company or twenty at the present time?

A Yes.

Q Assuming they are operating as you are at the present time for 2.98 cents?

A That is right.

Q You think you are operating as economically and as efficiently as you can do, I suppose?

A I think so.

Q And there is 2.98 cents then. You say notwithstanding that we get all the volume and all the business our cost per gallon is going to go up?

A That is right, and that applies particularly to the small point. The medium point----

Q You may in the totality get a greater profit, or would it be less profit on each gallon?

A That is right.

Q Getting all of the gallonage you might realize more money?

A As we go on at these---it is the small points I am

starting out with, you will notice in the medium points some operate about even but when it comes to the larger points some are against the exclusive franchise. In other words, there should be a saving of 2/10 or 3/10 cents per gallon on the exclusive as against the commission basis but the deliveries still show increased cost. But these larger points in Alberta or the Prairie Provinces only amount to about 10% of the total. If all the points, we will say, were large, then there would be some saving on salaried operation on an exclusive basis as against a commission operation on a not exclusive basis.

Q MR. COMMISSIONER LIPSETT: On the present system, I cannot quite follow you, what are you going to do with the commissions paid at present on the new set-up or this alternative set-up. It seems to me there is an unaccounted for figure?

A Well, Sir, if you do not pay a salary you have to pay a commission.

Q Yes?

A Or vice versa. The commissions are figured into the cost. Now, where we go into the salary basis we have to wash out the commissions. We do not pay commissions. We pay a salary.

Q And you get the benefit of the commission. Supposing at the present time your figure was say 15 cents at Arrowwood and you are giving 1 cent off and you are giving 2 cents off that. You are getting net to the refinery 13 cents or 14 cents. Now, if you pay a salary to the man at Arrowwood, aren't you getting the 15 cents for all the oil?

A No, we are still netting back that much less to the refinery. He has to be paid.

THE CHAIRMAN: If the salary is greater than the commission the 15 cents is correspondingly reduced.

MR. HARVIE: And if they are the same it is just the same net-back.

THE CHAIRMAN: You say it is more?

MR. COMMISSIONER LIPSETT: Mr. Miller is putting it on this basis, that the netback is less?

A It is, Sir. It would give us, I think----

Q Surely if you are charging the full salary off your 15 cent basis you are then putting out your product at 15 cents, aren't you, and at present you are only putting it out to these agents at 13 and 14 cents, aren't you?

A No, Sir. We are putting it out at 15 cents. We will say the price is 15 cents. Then we pay our agent 2 cents per gallon and that nets us back 13 cents.

Q Yes.

A Now, the price would still be 15 cents, but instead of paying that agent 2 cents per gallon it is costing us $1800.00 for the man's salary, which on the total volume might be the equivalent or slightly more, as it is here, which would reduce that 15 cents and bring it down to 13 cents or 12½ cents or 12¾ cents, as the case may be. Then there is the truck, and we have to operate it. We have a building; we have to pay salary and supply all the equipment and facilities, whereas to-day we pay a commission and they operate them and supply all the equipment and facilities, and we simply pay a commission on the actual sales at the point.

Q Why do you think then you would have to have an exclusive sales agent, a full time agent in every case any more than at the present time?

A Well, I think when you get over 100,000 gallons, or particularly if you get up to 150,000 gallons at least you have to consider that peak season of the year. In other words, you cannot, or we would not be able to put a man on there - we have to operate 12 months in the year and you cannot expect a man to go in there and work night and day, as the case may be, for four or five months, and when the three or four months' slackness in the winter comes lay him off. We have to maintain that man the year round, and he is still making deliveries in the winter time, even though they are small. Now, that would be more important with exclusive operation.

Q Would it not work out this way if you had a man satisfied to take 2 cents a gallon and he gets 17,000 gallons, wouldn't he just say "Well, I will look after your whole 105,000 gallons and I will do it for 1 cent a gallon. And I will look ~~after getting the necessary~~ help and so on" ?

A He could not do it for 1 cent per gallon. His delivery cost has to come on top of that. Further on here you will see where even on a commission basis we might be better to operate on a commission basis rather even with an exclusive franchise. There might be a slight saving. This is an extreme case, of course, at Arrowwood.

Q I am trying to get at the principle. It is not criticising one as against the other?

A No.

Q Supposing you had this man on a certain commission, whatever it is, and you increased his volume six times, would not the tendency be for him to say "Well, I will take less commission and get that big volume."

A Well, we have never paid less than 1 cent per gallon commission since we have been in business in the western part of the country. We have never paid less than $1\frac{1}{4}$ cents to cover the man or to reimburse the man for his cartage, delivery cost to outside points.

Q Whatever the v olume is?

A I do not think it is possible for an agent to operate or for anybody else to operate under that $2\frac{1}{4}$ cents.

Q Whatever the volume may be?

A No. Because when it gets up to a certain volume there is no saving. He has to keep up the equipment and pay extra drivers. He has further depreciation and further costs of operating and more licences and more everything.

Q MR. HARVIE: Mr. Miller, just on that point, at Arrowwood, as it is being serviced now by these three companies, there will be three individual agents, separate agents. No one man has the agency for two companies?

A Right.

Q And each of those agents will now have a truck apiece?

A Possibly.

Q Or have one available and in the result in the peak season which is something, according to your evidence, that has to be looked after, there are three trucks available to service that area. They would be thrown all into service, the two or three days or the week or two peak service, which would not be the case if it was a 100% franchise?

A No, Sir. We just use one truck, and where we say that one truck, that is the whole picture is calculated on the fact that the farmer will take his deliveries at our convenience.

Q In other words, you could not even on your estimate of the

exclusive franchise basis, give the same service inasmuch as you only have one truck or you would have to have a greater expense running additional trucks?

A That is absolutely impossible.

Q Not only would, according to your picture, the expense be greater but the service not as good to the farmer?

A No, Sir. As I said, this is based on deliveries at our convenience. As I said yesterday, it is impossible for anyone to synchronize the deliveries in the west because of the variety of times the crops are harvested or the spring seeding is done or summerfallowing is done, and so forth. You cannot synchronize your deliveries to suit your convenience. Therefore, as I said, we have only shown one truck all the way through. And where we come to two or three trucks it is still based on that fact that we deliver at our conveneince. So the farmer or the producer, whoever he is, would get lesser service than he is getting to-day and it might cost him more money.

Q MR. COMMISSIONER LIPSETT: How was that difficulty, Mr. Harvie, raised about the shortage of trucks in the peak season, how would that be affected under your new set-up under which the farmer in any event would come to the station?

A Some will, Sir, but, as I said last week, we have ample truck facilities with ample capacity in our storage tanks to take care of the distributing points, the dealer distributors that we supply in the zone adjacent to any one company-operated branch. At those outside points known as dealer distributors where there are underground storage tanks that we make delivery to, they will be kept full

during the peak season by our branch trucks, and the dealer distributor will make delivery to the farmer from his local point. In other words, I think it is better than it is to-day because if we operate that truck delivery to the farmer, we will say from Lethbridge to an area 30 miles around Lethbridge, a radius of 60 miles, if we operate from that one point, there will be many times when the weather will prevent delivery being made and if the producer or farmer requires some petroleum product he would have to come all the way into Lethbridge, particularly so when we could not get out.

(Page 10,957 follows.)

When we cannot get it. Under the new form of distribution we will not only be able to give him the same service that we have in the past but we cut his distance and make the requirements more accessible to him. As I said last week he will not have to go any more than possibly five or six miles to secure what he wants if the truck cannot get out to him. The capacity will be ample to take care of the peak season.

We go to Elk Point, that shows on Graph 2, and we have a similar condition, it is a small point, where our present cost is 3.43 as against an exclusive cost of 3.96; the Graph No. 2 shows that 56.41% of our business was done there in July, August, September and October in 1937 and 1938; the actual sales by month are shown and the, in starting off at 100% based on January gives you the fluctuations there in 1937 and you will note in September 978%, which was the peak month, in September.

Q MR. HARVIE: Just on that, you are using throughout the British American's estimates in coming at these figures and in your first one, Arrowwood, as against 105,000 offering your percentage was roughly 17%?

A Yes.

Q And that, as you expressed yourself a moment ago, was the extreme cost. Now in No. 2, Elk Point I notice your percentage has gone up to over 50%?

A Yes.

Q And I am just drawing that to the attention of the Commission?

A That might be worth while looking at there, there is a cost, where there is a total offering of 80,000 gallons,

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we estimate, and out of the 80,000 gallons in 1937 we took 50,332 and in 1938 45,856.

Q MAJOR LIPSETT: 96,000 gallons?

A I beg your pardon, 96,000 gallons is right, we took a little better than 50%. There are three companies in there and there is one of the in and outs, who came in there and operated without equipment.

Q MAJOR LIPSETT: Now just dealing with that, Mr. Miller------

Q MR. FRAWLEY: You said something about an in and out dealer there, Mr. Miller, and I do not know what you mean?

A What I mean there is one man there operating without equipment and possibly somebody trucking in there and making sales wholesale at that point.

Q There are three people there, yourself, the Imperial and the U. F. A.?

A Yes, but there is one other, Mr. Frawley.

Q There are four?

MR. HARVIE: There are four.

WITNESS: Now when we get to Queenstown---

Q MAJOR LIPSETT: On this Elk Point for a moment if I may delay you, Mr. Miller, for a moment, you will notice that for 105,000 gallons at Arrowwood, four tanks with 48,000 gallons is sufficient capacity but when you come to Elk Point you have 12 storage tanks?

A Right, sir.

Q For 96,000 gallons, do you not think there is wastage there?

A I think there is more storage required there, sir, and I

said four below there on the exclusive branches, and I think I am conservative when I said that we should have four tanks, 48,000, now that is very conservative, it might be better to have six but I tried to make this thing, set this up on a fair basis but you see, Mr. Commissioner, there, even although there are nine tanks there at Elk Point-----

Q THE CHAIRMAN: There are 12, are there not?

A And three other tanks making 12, there are 9 there with only a capacity of 48,000 gallons, they are small tanks, they are a bunch of odd sized tanks I suppose and the other three tanks amount to 19,000 gallons, or a capacity of 67,000 gallons. 48,000 gallons is the minimum that I think anybody can use on an exclusive agency.

Queenstown is interesting, when you look at the Graph----

Q MR. HARVIE: Before you leave Elk Point, Mr. Miller, Elk Point is, as I understand it, a considerable distance off the gravelled road or good roads or do you know, my point is this, do you require additional storage at a point where you are apt to have bad roads over a long period, over and above the point where you are right on gravelled roads?

A Oh yes.

Q And that may in some cases explain the variation in the amount of tankage required?

A I would say the tougher your roads are and the worse your weather is, the more storage you must have.

MAJOR LIPSETT: As Mr. Miller points out, Mr. Harvie, the actual gallonage is not so very much more. They are evidently smaller tanks.

MR. HARVIE: Yes, so far as the number of tanks are concerned but I was just trying to bring out that point and I think it will become apparent later on.

Q THE CHAIRMAN: The several sheets are to illustrate some point that you wish to make, now precisely what is that point, Mr. Miller, that if you had a monopoly of the oil busines for the Province of Alberta, that it would cost the public more per gallon?

A No, I would not say it would, Mr. Chairman. I think there would be a slight saving if the company had a monopoly in the Province of Alberta because you would have, then your refinery operations and all your other operations come into that, I am speaking only of the operation of distribution.

Q Yes, quite so. There might be compensating factors in the greater volume that would go through your refinery but speaking of it purely as a marketing business, if I am rightly appreciating your point, it is that if you had the privilege of marketing all oil sold in Alberta, that it would cost you more money than it does today?

A Definitely so, yes, providing we continue to go on on the same basis as the industry is operating today, on the 1938 system.

Q MAJOR LIPSETT: Is it quite that, Mr. Miller, is it rather not if you put salaried agents on at $150 a

month in all these points it would cost you more?

A No sir, because where we go on, here is a case there where we show we will give that man $1800 a year and he is there, a one man operation, he is the agent, he looks after the unloading of tank cars, the care of the stock, the invoicing, the collecting and deliveries. Later on in the other points you will see where we have to have a salaried man, he will manage that busines because it needs one man to give the proper administration to it because of the additional volume. Then he has to have additional men, he has to have a warehouse man and truck drivers and all those costs are enumerated according to the point.

Q THE CHAIRMAN: Now it is most interesting and I want to know what thought you want us to take from it. By the figures they may work out a certain way and they may not, they are capable of check, they are matters of detail and they are illustrations but there is some thought behind it and what is that?

A There are just two thoughts, Mr. Chairman, one is that I am anxious that you have a clear picture of the difficulties in marketing petroleum products in Western Canada compared to the United States or Eastern Canada----

Q Yes?

A And the other is to, my understanding was and it has been said by Commission Counsel that on these exclusive franchises business could be operated for practically nothing.

Q MR. FRAWLEY: You are meeting that point?

A I want to make that clear, that it is not possible to re-

duce the cost on an exclusive franchise operation.

Q MR. FRAWLEY: So that the Commission will know, now where did I ever say that, is that just a general impression you got from discussions with me, so that we will be clear what you are meeting or trying to meet?

A Well you made the statement to me, Mr. Frawley, that there would be a tremendous saving if the Province were zoned and just one company operating.

Q MR. HARVIE: In each zone?

A Yes.

Q Do I understand, Mr. Miller, your impression was that the Province was to be divided and zoned, if you can use that word?

A Correct.

Q And different zones given to the principal operating companies in the Province on a proportionate basis according to their present gallonage ?

A That was one of the theories which Mr. Frawley had in mind as he expressed it to me.

Q And you are meeting that theory?

A In other words your thought was that if you took 25% of the Province of Alberta and you gave it to the Imperial Oil Company, you took another 25% and you gave it to us, you took another 20% and you gave it to somebody else and then we were operating on an exclusive franchise in those zones; not only will those costs, your actual operating costs at your agency points be greater but your entire costs would be tremendously greater on that basis; for instance take Southern Saskatchewan, as I said the other

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day, we are sitting there with a refinery and we operate in a drought area 200 miles one way and about 300 miles in the other, what is our position, which I am going to show you later, our position is that, when we contract the crude and we contract for various things in expectation of a crop, as I said the other day, the crop condition in Western Canada has the greatest bearing on the marketing of petroleum products than anywhere else, and what is the picture? You sit there and your crop does not come off, your cost per gallon goes sky high. You cannot press a button and shut it off overnight or you cannot press a button and start it up in the morning. You have to have a highly trained personnel, you have to have proper facilities, and that personnel cannot be trained overnight, so that there are two thoughts, as I said, Mr. Chairman, one was to show the difference between the present operating of the industry as against those operating exclusively and the other is to still show you the difficulties that this business has to contend with because in my third volume I am going to discuss, and which I think Mr. Frawley is anxious to get down to, the marketing cost and I want to reiterate again that it would be most unfair and not only unfair but it just cannot be done, you cannot figure the marketing costs of this industry under any one year and as you said, Mr. Frawley, that you wanted our business in 1938 and I am anxious to show that marketing costs in this petroleum industry in Western Canada must be judged over a long period and not over any one year.

Q MR. FRAWLEY: Don't worry so much about what I am interested in, it is the Commission you are presenting this to and not to Mr. Frawley?

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A Quite right.

Q MR. HARVIE: But I think we are interested as to what Commission Counsel has in mind and as to what his line of reasoning and thought and intentions are?

MR. FRAWLEY: I do not know.

THE CHAIRMAN: Quite so.

MR. FRAWLEY: I do not know.

THE CHAIRMAN: Oh yes, they are. You are investigating every avenue as I think you should and surely as you approach each avenue those who have an interest in seeing that you will not have a theory which is wrong, or that you might have a theory that they think good, which they think they should support, they are at liberty to do it. We have explored this with witnesses, the Commission has, whether you have or not, this idea of dividing up the territory and so on and Mr. Halverson was examined about that.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And it is right that this witness should give his mind and thought to it.

MR. FRAWLEY: That was what I was anxious to know about and if Mr. Miller is now referring to a line of examination I had with Mr. Halverson, suggesting what could be done by this or that all right. All I am concerned about is that there has been no preconceived ideas about this. There seems to be something in the witness' mind that I have preconceived ideas that I am going to submit to the Commission either now or at another time and I just want to assure him that there is nothing of that kind.

THE CHAIRMAN: You will explore every avenue naturally that will be of assistance to us.

MR. FRAWLEY: Yes, and I have done so without any sparing of money or time up to date but I want this man's statement and this company's statement to the Commission to be helpful, to be helpful and useful and I do not want him thinking that he has to meet any preconceived ideas of mine.

WITNESS: I am not, Mr. Frawley. I spent several months, that is off and on, with what time I had, to prepare this picture to show why the cost per gallon here is higher than it might be expected to be by some people and to let this Commission know the peculiarities of this business and to also give them our experience over the past 10 years, which we think and we have every reason to feel, will be the same over the next ten. I do not expect to see the next ten years in this Western country any different so far as operating costs in the petroleum business is concerned than they have been in the last ten years. I do not expect to see the hazards any different. It is a very hazardous business. The inventories in Western Canada so far as we are concerned, we have an inventory in Canada of about 11 million dollars out of which in Western Canada the inventory is about 6 to 7 of the total and when this crop goes off and there is no production we sit there with those inventories for another year and that has to be considered too.

Q MR. HARVIE: And that is what you meant when you said that really the over-all picture over a

series of years must be considered, rather than as intimated, as I gather, by Commission Counsel he was only interested in one year, 1938.

MR. FRAWLEY: I am not going to protest any more, Mr. Chairman.

THE CHAIRMAN: Oh I think not. I think Mr. Frawley only wanted it to be brought up to-date.

MR. HARVIE: I think Mr. Miller can emphasize what he has in mind. I think there is more than that and I think it is well to have the air cleared on it.

MR. FRAWLEY: Yes, there is something more.

WITNESS: You mean with reference to competition.

MR. FRAWLEY: Yes.

WITNESS: Well I tried to mention to Mr. Frawley some of the things I mentioned this morning, on the operating costs and so forth of this industry, that they should be judged over a long period. Mr. Frawley's reaction to that was "we are not interested" or "I am not intersted anyway over what has happened in the past 10 years or what is going to happen in the next 10 years. All we are interested in and all we are interested in in any way shape or form is one year's cost, 1938".

MR. FRAWLEY: I am very sorry if you took anything of that sort from any casual conversation you ever had with me, Mr. Miller.

WITNESS: It was the statement you made, Mr. Frawley.

MR. HARVIE: I know there were other officers of the company got the same impression at the same conversation.

THE CHAIRMAN: This must be borne in mind, Mr. Miller, that you are familiar with the nature of this inquiry and if you think the ten year picture is the only true picture no doubt Mr. Frawley will be the last person to want to limit you to 6 months or to a one year period. We are trying to find out what are the proper answers to questions which are propounded?

A Quite right.

Q THE CHAIRMAN: And you are quite at liberty to approach it any way you like. You have an interest in the subject. You have an interest in our recommendations perhaps, and you naturally will convince us of what you think right in such way as you see proper?

A That is all I am trying to do, sir.

Q Yes, but I am not minimizing anything the Commission Counsel says, Commission Counsel of course is the right hand of the Commission so to speak presumably bringing before it everything that he thinks will be material and of interest to us?

A Yes.

Q Now you may differ with him as to whether or not a given thing is of interest and you are at perfect liberty to proceed in any fashion you think proper, there is no prohibition about it,-whether it will convince us is not for anyone to say, we do not know ourselves as yet,-and as Major Lipsett says it should be said in favour of what

Mr. Frawley has said, that whilst you may not get the complete picture over a year, certainly last year's operations are of great importance as being more immediately near to the point that we are now dealing with?

A Quite right, and it was the best year so far as this industry is concerned, it was our record year in the Province of Alberta, 1938.

Q MR. HARVIE: And possibly for that reason it might be all the more unfair one to take, than any of the others?

MR. FRAWLEY: The Commission is able to judge that.

A I think the picture will clearly show the condition over the 10 year period and I think that is going to be very interesting.

MR. FRAWLEY: There is nothing strange about this. The Commission had the same thing to deal with in connection with the pipe line. We emphasized 1938 and then we gave some effect to what the possibilities might be in the future and so on. However I certainly join with the Chairman that the British American Oil Company or any other oil company, they have the freedom of the Commission so far as I am concerned, to bring in any kind of cost they like which they think will help to demonstrate this industry properly to the Commission.

THE CHAIRMAN: All right. Now where do you go next, Mr. Miller?

A We are at Queenstown, sir.

Q Yes?

A Queenstown, I suppose you do not wish me to go into all the details.

Q No?

A Queenstown there, we show 80,000 gallons potential. I might say the various potentials will vary from year to year, it may be 80,000 gallons this year and 140,000 gallons next year or it might go down less than this year. We show a cost there of 4.06 under the agency operation where we have a gallonage of 21,426 gallons and if we had all the business on the same basis as we figured out the previous points it would cost us 4.54. Now if we look at the chart there, Chart No. 3 covering Queenstown, you will notice in the four months, July, August, September and October, 47.89% of the total business was done in four months and when you look, start off with January, 1937 as 100%, and you see a wide variance in the percentages by months, we drop to 34% in February, 167% in March, we go up, April 774%, and then for those four months, May, June, July and August there, we have 3589%, 3476%, 2234% and 2100%. I mention that again because that is the true characteristic of this Western business. Sometimes your picture is away up in the Spring and another time it is away up in the Fall and this shows two years there, the black is 1937 and the red is 1938, from January to December.

The next one is Lomond. In Lomond there is a total potential of 76,000. We have a total of 33,367 and we show the cost under the old operation of 2.96 and our new cost or the cost under an exclusive

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franchise would be 4.78.

Q MAJOR LIPSETT: You are still carrying that on on the basis of a whole-time man at $1800?

A Yes, there is only one man.

Q For 76,000 gallons?

A Yes. Now it can be converted, Mr. Commissioner, to the Commission basis but it would not be any less or not very much less if any.

At Craigmyle, we are now coming to some of the medium points after Craigmyle. At Craigmyle out of a total offering of 84,000 gallons, our business was 26,000 gallons and it cost us 5.37 on a commission basis and a cost on an exclusive basis where we have one man operating would be less, very slightly less, 5.02¢. You will notice on the chart of Craigmyle in 1937 there was no crop or the crop was very bad in any case and then you take 1938 in red, shows where your peak season came in between August, September, October and November, in red. The next one is Sylvan Lake, and Sylvan Lake is a different operation entirely.

Q MR. HARVIE: Now these are getting into the medium sized stations?

A Medium sized stations.

Q Are these summaries on page 18, 19 and 20?

A You mean to go to those.

Q If you care to?

A All right.

Q They are just in a summarized form?

A I think we will get to that but I wanted to show the actual

deliveries made up here later.

Q All right?

A Sylvan Lake----

THE CHAIRMAN: I am at Queenstown and then we go to Lomond----

A And then right on, sir, to Sylvan Lake.

Q THE CHAIRMAN: Oh yes.

A Sylvan Lake, and that is shown on Graph No. 6. There is a point with an offering of 236,000 gallons and our business there is 61,000. The number of companies operating there are two. We show a cost there of 2.95 under the commission operation. Under the exclusive basis we show a cost of 3.07. There we show 12 months, one agent $1800.00 and one driver for 12 months at $100 a month, $1200. We show two trucks, cost of maintenance of those trucks at a quarter of a cent will be $590; we show one truck $740 and the other truck $240, making a total of $1,570 and that is a 236,000 gallons potential point. You will notice that the business at Sylvan Lake is very much more stable and constant than it is in some of the other points, particularly on the previous Graph there, Craigmyle and so forth.

Q MR. HARVIE: That is shown on Graph 6?

A On Graph 6; that is due to the fact that there is a resort, summer resort there and there is a large car consumption which makes the sales a little more of a stable and steady nature.

The next one is Picture Butte, illustrated by Graph 7; total offering at Picture Butte of

30,000 gallons; three companies operating.

Q MAJOR LIPSETT: In that Sylvan Lake Graph, Mr. Miller, there is little variation?

A There is very little variation in there.

Q That 10,000 gallons for instance for July, 1938, is that shown there in the Graph?

A On the Graph?

Q Yes?

A Yes, that Graph is on the basis, on the percentage basis. It starts off at 100. I think I have Sylvan Lake further on, on an actual gallonage basis.

Q MR. FRAWLEY: How do you determine the total offering, Mr. Miller?,

A In some cases we secure the figures of the sales by other companies at the point and in others we make an estimate of car registrations and the tractors, or we can get it by the number of tank cars and tank trucks going into the point. There are many ways how we get that potential. Sometimes it is difficult to get.

Q MR. FRAWLEY: I mean it would be very easy to get it from us because we have all of the companies' gallonages at all these different points?

A And you can check these too, as I said, Mr. Frawley, these potentials at any point in Western Canada will vary up and down over every year. You may have a point today that gives you 100,000 gallons for 1939 and in 1940 it may give you 240,000 gallons or it may only give you 50,000 gallons, depending upon the crop and weather and other conditions.

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Picture Butte shows 10 tanks there, 34,000 gallons. We consider at Picture Butte we require 8 tanks as a minimum.

(Go to number 10,974)

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96,000 gallon capacity. The cost there on the commission basis is 2.83 and the cost on the salary basis, this being a large enough point to operate on a salary basis, providing we did it on that basis, it would be 2.96¢ per gallon.

Q MR. COMMISSIONER LIPSETT: Why do you increase the tankage in that point from the present 61,000 to 96,000?

A Well, sir, we feel that point there of 230,000 at Picture Butte, due to the peculiarity of the business, we would not be safe unless we had a minimum of 8 tanks or 96,000 gallons. We have to ship in for that tank car lot loads of Diesel fuel, kerosene, three grades of gasoline, besides other sundry products. And the distance Picture Butte is from the refinery and due to the peculiar trend of business in the Fall of the year, we have, we feel, to have ample capacity.

MR. HARVIE: That is the sugar refinery.

Q MR. COMMISSIONER LIPSETT: Is there any suggestion at the present time that the tankage is not sufficient?

A Well, it may be sufficient with the three companies in there, but apparently they are in kind of a bad mess, these tanks. There are 10 tanks that have only got a total capacity of 34,000 gallons. If we got back, Mr. Commissioner, to say two products, just say two grades of gasoline and distillate, and everything else went by the boards , then our capacities at these points would be that much less.

Q But, Mr. Miller, you are reducing the number of storage tanks from 13 to 8?

A Yes. We are putting in our storage type of 13,000 gallon tanks. We only use one type of storage tank anywhere in Canada.

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Q MR. PLOTKINS: Is not the explanation that a large number of that percentage of that gallonage comes in by truck from Lethbridge, and that is why it does not need awful big capacity tanks?

A I think you are right. I would not be surprised. In other words, they are trucking into there in smaller tanks.

MR. FRAWLEY: It is yourself and your jobber, the Great West and the Artic. If that would help.

THE CHAIRMAN: Under this theory, if it be a theory, would it be an advantage to everyone if you would have a lesser number of products, or do you think everyone should be entitled to buy their luxuries whether it be in oil or anything else?

A Well, I think it would be a mistake to restrict the products too greatly. But as I said the other day, Mr. Chairman, due to the changes that have been made in the mechanized operations of the agricultural business, particularly the many changes they have made in their tractors, and before they had tractors, their engines, it has taxed this oil industry in Western Canada to the limit to supply over the years and particularly the last ten years, their needs. They are now getting down to a more stable basis. Apparently all the implement companies are now devoting and selling practically one type of tractor, which is a general purpose type of tractor, rubber-tired, and the farmer can hook onto his wagons and take his requirements to the elevator, or he can use it in the field for his plowing work, and use the same thing for his threshing machine, and these tractors are run by a small, high-speed type of motor requiring a minimum octane of 70.

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As far as we can find out today, as to consumption, when the majority of the farming becomes equipped with a new type of tractor and other equipment, we are assured the consumption will increase 25% over the farm business. What happened was, we started out in the early years, we stored one grade of gasoline and kerosene. There were no engines in Western Canada that used anything else, but that one grade of gasoline and kerosene, and the majority of them were using kerosene. When they changed their mechanical devices and carburetion and so forth, and they changed the ignition system, and so on, we tried to keep time with that industry in producing first of all a light distillate because when times were adverse the farmer was anxious to buy petroleum products that he could get at lower prices than gasoline. We got into the high gravity distillate and we got into the low gravity distillate, and that is the way it has worked out through the years, and as I said, we have been carrying about seven. Then I said the motor industry likewise were going in the opposite direction and they were trying to cut down the weight of their motors and increase the power and efficiency of their cars and we had to keep time with them and put out higher octane fuels which cost more money. As I said the other day, I think the average car in the United States and Canada is about six years old. Therefore, I think the time is coming when only two grades of gasoline at a maximum should be necessary. As the farmer is also going to get a standard grade of gasoline, why, that will eliminate that product, or it should eliminate at least

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the distillates and naphthas or any other product.

Q You think you have reached the point where two brands of gasoline could suffice?

A Yes, I think so.

Q MR. FRAWLEY: Which two?

A The standard brand today, of anywhere from 71 to 73 octane.

THE CHAIRMAN: Just a minute. Standard 71 to 73?

A 71 octane, we will say, sir, today, that is the average.

Q Yes? Are you allowing any spread on that 71 to anything?

A 71 minimum, sir.

Q That is your standard?

A That will gradually increase as farm implements or farm engines or motor cars increase their compression ratio. And the other one, I think you will have to have as a minimum is 80, which is now known as Ethyl gasoline.

Q What is your Ethyl minimum, did you say?

A 80, sir.

Q 80 octane minimum?

A That is right, sir. Then there will be aviation gasoline that we must deal with separately. We do not carry that all over the prairies. We only carry that at main points, like, Calgary, Lethbridge, Winnipeg, and so on.

Q And it calls for?

A It calls for today, sir, there is very little if any today below 83 octane. 87 is mostly used today.

Q Do you think that is the proper minimum, 87?

A 87 is the minimum. They are running up now to 100 octane due to the increased compression of the engines, particularly those used by the army and the navy.

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Q MR. PLOTKINS: Would you care, Mr. Miller, to give the same for distillates and other products, until such time as we can eliminate them? I would like to hear something about that?

A As I said, Mr. Plotkins, I think once we have a prosperous yyear or two out here, and the old equipment is replaced by the modern, new equipment, then your distillates are going to definitely decline. They are declining, sir. They are definitely declining. Our distillates declined very considerably last year and the year before. That is, I am speaking about the 45 gravity distillate. That has been supplanted with the third-grade gasoline of around 56 octane, and that is going to be supplanted when the entire territory has the new-type tractor with the 70 octane. It will take a little time to work it out, but that is the trend today.

Q THE CHAIRMAN: 70 octane?

A Yes, sir. You see, the tractors the farmers have today that are using 56 to 58 octane gasoline are low-compression and they can get by. But they must have 70 octane for the new type.

Q Well, if your minimum of your standard brand is 71, you have only to go up 1 to get away from the farmers requirements as a separate thing. I mean, he would be using the standard brand then?

A Maybe I confuse you there.

Q You said standard brand 71 octane minimum?

A Yes.

Q Ethyl 80 octane minimum, and aviation 87 minimum. That the sales of distillate were declining for farm use?

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A That is right.

Q That third grade gasoline was now taking its place?

A Was taking the place of the distillate, or has done over the last year or two,

Q And when you get the new type of farm machinery, you say it would use 70 octane gasoline?

A That is right, sir, or 71.

Q Yes, or 71, and that brings it right up to what you call the standard brand?

A That is correct.

Q So that you would then have outside of the necessary greases, there would only be a need for standard gasoline and Ethyl?

A Standard brand gasoline and Ethyl gasoline.

Q Nothing else, if the new type of equipment was used by the farmers?

A Of course we would have to carry kerosene, and we would probably have to carry Diesel Fuel for Diesel Engines. The fight seems to be between Diesel and high-compression motors today.

Q MR. COMMISSIONER LIPSETT: But it would follow the trend too really if that turns out as you say, that the third structure will put out the distillate?

A Yes, as time goes on, I cannot see anything else for it.

Q I suppose it would come to the time when with the newer motor cars you have to go to Ethyl exclusively?

A That is right. Well, except it has really worked out in this way, sir. Today, a man buys a new car and he generally goes to Ethyl. The man who bought his car four years ago can still use standard brand. As I have the average is about 6 years old and there is a definite

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cost of Ethyl over standard, and a man should not be penalized by only having 80 octane if he has got a car that is four or five years old. The other man is willing to pay the price and get the performance and greater economy if he has a new car, and therefore he buys Ethyl. We have some farmers here this year buying Ethyl gasoline for the tractors, the first time we know of in history, for that new type of tractor.

Q THE CHAIRMAN: I was interested in hearing you say as the new machines are brought out the refineries are hard put to it to put out a suitable gasoline for the machine. You follow the machine always. I mean, people making machines might find themselves in a bad position if there was not any fluid which would run them. How is that? They would not make them very long?

A No, I think today, sir, with the further developments of the Society of Automotive Engineers they get together with the various engineers in the petroleum industry and try to figure out what they can do for the future, and then they estimate what they can do and they keep pace. They try to synchronize the products with the efficiency that is required.

Q Yes, because surely a company could not just decide over night that they will have you change a large part of your plant and every other refinery plant to serve their machines?

A No, sir.

Q And if they could not get the gasoline, they could not sell their machines?

A Yes, quite right. When it does take place, we have to make provision for that right across the board.

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Q MR. HARVIE: That is the Chrysler situation that you mentioned the other day where they had to make two kinds of heads?

Q THE CHAIRMAN: You say as a practical thing today the automobile and machinery makers are trying to work with the engineers in your industry?

A They do, sir, right along, both here and in the United States.

Q So that we might not expect a continuity of these shades and differences of gasolines?

A Not so much as it has been in the past.

Q And gradually eliminated if they are really co-operating, I suppose?

A Quite right. As a matter of fact, to illustrate how that works in the Western Provinces. With the multiplicity of brands, particularly due to the fact that large numbers of the agency points, the total potential is not great, we became concerned with putting in or having to introduce and instal 13,000 gallon tanks. So we purchased for half our agency points in Western Canada some five or six years ago, 3,000 gallon tanks, which lay horizontally on the ground, adjacent to our vertical 13,000 gallon tanks. Then we made an investment of another $250,000.00 for three compartment cars in order that we could load that compartment car with three different brands of products to our agency and unload it, as against shipping 8,000 gallons in individual cars. Now, that is only about five years ago. Today, that is really obsolete as far as we are concerned. We wish that the 50 3-compartment tank cars were in the one tank, and we wish we had not got the 3,000 gallon tanks either. But there is the condition that we have been up

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against in this western operation, to try and buy what was needed, and at the same time supply it in the most economical manner so as to get the cost as low as we can to the producer, and that has been absolutely essential over the last ten years, particularly due to the very low prices that he has received for his production and the very poor crops he has had in many areas in Western Canada. We have got to study these conditions and study that production, because as I said they are closely allied with the farming industry, more closely than we are to anything else. And that, after all is said and done, is our biggest industry.

Q MR. PLOTKINS: Mr. Miller, in connection with this Ethyl and high-octane gasoline, has it not been your experience in the last few years that motor manufacturers put out feeler cars. In other words, in the higher range that each..........?

Q THE CHAIRMAN: Put out what?

MR. PLOTKINS: Feeler cars. They put out a car of the same make, for instance, take the Chevrolet, is it not a fact the Chevrolet in the last six or seven years have put out two grades of Chevrolets, the Master and the Standard?

A I understand they have, yes.

Q And the Standard has a lower compression ratio than the Master?

A I was not acquainted with that, Mr. Plotkins. I understood that.......... We have bought a lot of them and I think the difference between the Standard and the Master was in the equipment, the body, and one had long springs instead of the new, shock-absorber arrangement. But I was not aware

there was any difference in the motor. I did not until now.

Q You know the Master is a considerably heavier car?

A It is a heavier car.

Q And in order to take care of that weight, not only my information but my experiences is that when we buy a Master or the Special as they call it, I think you get a higher compression ratio. In other words, you get a much more powerful motor.

THE CHAIRMAN: This Witness says he does not know that.

MR. PLOTKINS: The point I am coming to is this, is that not some arrangement where the automobile industry has a means of findding out whether the public will accept that higher compression ratio, or that little better car each year, and as the percentage of the public buys today a car if it is accepted by the public, next year the Chevrolet will take that - we will take that one company for an example, and the Standard Model next year will be the Special Model of the year before. That has been your experience, has it not?

A Well, really I cannot answer that intelligently, Mr. Plotkins, because I am not familiar with that experience. I do know, however, that the oil industry combines with the motor car industry, which is mainly done through the Society of Automotive Engineers of which both the petroleum industry and the motor car industry are jointly allied, and work out if they can the future requirements as far as increase in compression ratios and so forth are concerned. I will say, also, I think the development of the motor

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industry and that of the petroleum industry, too, has been remarkable over the last six or seven years. The way they have been able to bring their costs of motor cars down and reduce the weight of the motor by 50, 60 and 70 per cent, and give greater performance at the same time, and lower the cost per mile, less consumption per mile. Where a car had 50 horse power at one time, it now has 100, and it uses less gasoline than it did before, and you get greater performance and greater speed. I think it is marvellous what has been accomplished.

Q You do not expect to change from the present conditions where a large percentage of your business is third-grade gasoline. By the way, what is the percentage of third-grade gasoline to standard and Ethyl that your company sells, for last year, for instance, to jobbers and everybody, the total sales of your company?

A You mean gasolines only?

Q Yes, gasolines only?

A I think our third-grade gasoline is about 30% of the total.

Q Yes, I would estimate that, 30 or 35 per cent.

A That is only a guess.

Q You would not expect that to disappear by next year?

A No. As I say, as far as Western Canada is concerned, from the information that we are able to secure through the Dominion Bureau of Statistics and through the various Implement Companies and other forms of statistical information, if this country does produce very good crops and they are able to secure a fair price, we are going to see a big change in the existing equipment, because it is claimed that there is so much of it now that is ready for

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the junk-pile, and when they buy new, it will be this new type that they will buy.

Q MR. COMMISSIONER LIPSETT: What is the trade name of your third structure?

A British Motor Gasoline.

Q THE CHAIRMAN: British Motor?

A British Motor Gasoline. Now, just to give you an idea. We have not got a tractor for farming operations of any kind except by oxen in Quebec, and very little of that. In the Province of Quebec over 51% of the total gasoline consumed is Ethyl. That shows you the trend towards.......

MR. FRAWLEY: Tourists buy a lot of gasoline in Quebec in the summer time.

A 51% of the total. The tourist trade in Canada from the United States only consumes about 9% of the total consumption.

Q THE CHAIRMAN: Your Ethyl gasoline is an advantage, as I understand it, in high-compression engines. But take the low-compression engines. If a person wanted to use it in a four or five year old car that you have been describing, if he wanted to use Ethyl, is it any advantage or disadvantage?

A There would be an advantage, and I think that he can save money by so doing, providing he will have his motor adjusted, that is, both his carburetor and his ignition. It is claimed by people that should know that there are millions of horse-power today on the road that is being wasted. In other words, they claim there are more cars on the road today that are not taking full advantage of the fuel that is being provided than there are that do. I do not know whether the Ethyl people are coming here or not, but I think they can

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give you some very remarkable and interesting information in connection with that.

Q Is it an advantage to the trade, to your company, for example, to sell Ethyl or not to sell Ethyl? Supposing Ethyl were eliminated entirely, and it was said it was quite unnecessary. How would it affect you?

A In the West, sir?

Q Well, take the West first, yes?

A It would not affect us very much.

Q Because there is so little Ethyl sold?

A About 15% I think of the total in the Province of Alberta.

Q Take your whole picture, your Canadian picture. I am trying to find out if this is just something that is being thrust upon the trade by the automobile manufacturers and the Ethyl Corporation or.........?

A I do not think so. As far as we are concerned, the difference that we secure for Ethyl over standard is taken care of by the additional lead we buy and manufacturing costs and facilities we have to provide. In other words, on the average we do not make any more money out of Ethyl gasoline than we do out of standard brand gasoline.

Q You would be just as happy if there was but one standard brand?

A I think we would, sir, yes.

Q MR. COMMISSIONER LIPSETT: You have to provide special storage for that 15%, I suppose?

A Yes, we do.

(At this stage the Hearing was adjourned until 2:00 p. m.)

2.00 P. M. Session

ALFRED HERBERT MILLER, having been recalled.

WITNESS: The next Graph we come to is Graph No. 7 covering Picture Butte. Picture Butte shows a total offering of 230,000 gallons. The number of companies operating - 3. Our gallonage 137,000 gallons. Based on our commissions last year and our fixed charges our cost per gallon was 2.83. We estimate under the exclusive franchise carrying 8 storage tanks at 96,000 gallons capacity as against 13 tanks that are now there of about 80,000 gallons capacity, our cost per gallon will be 2.96, which on a company-operated basis calls for one agent, 12 months, $1800.00 and one truck driver, 12 months, $1200.00 and two trucks, one tank truck, one tank delivery truck and one smaller truck for miscellaneous and farm deliveries. On the Graph it shows there the peculiarity again of the trend of the business; In 1937 under the black it showed the peak run in August, September and October and in 1938 under the red we get the peak during March and May and another in the Fall of the year.

The next we come to is Leduc. Leduc has a potentil of 223,000 gallons. In 1938 there were 13 storage tanks there, or 15 storage tanks rather, I beg your pardon, 13 with a capacity of 67,000 gallons and two with a capacity of 15,000 gallons and there were five companies operating. Our gallonage 59,160 gallons and our commissions plus our fixed charges worked out at 3.34 cents per gallon. Under the exclusive franchise based on the same gallonage we estimate 8 tanks as the minimum with 96,000 gallons capacity; one driver and one

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agent for 12 months; driver $1200.00 per year and the agent $1800.00 a year. It would necessitate two trucks, one tank and one stake, and we estimate our cost per gallon on an exclusive basis would be 3.26. The Graph No. 8 shows that there is a business at Leduc which is more consistent than it is at the majority of points inasmuch as I believe Leduc has considerably more mixed farming consequently it has greater stability and a more consistent operation throughout the year.

The next point is Dewberry. Dewberry had a potential of 110,000 gallons. The number of companies operating - 3, with 72,000 gallons capacity there in storage, which includes our own. Our gallonage was 51,031 gallons and our cost on commissions paid and fixed charges was 3.74. We estimate there we would require 6 tanks on an exclusive basis and a driver for six months in the year only at $600.00 and one branch agent with a salary of $1800.00 a year. We only show one truck, giving depreciation and maintenance costs of $515.00 and we estimate that operated on an exclusive basis it would be 4.79 as against 3.74 as at present. The trend there at Dewberry is erratic again. It varies very considerably. In 1937 the big peak was April to June and then it faded off in the last four months of the year no doubt due to the intensified tractor activities in the spring and not a very good crop in the fall.

The next one is Nobleford. Nobleford has a potential of 151,000 gallons including ours there is 67,000 gallons storage. The cost, the fixed charges and commissions give us a total cost per

gallon there of 3.23 cents per gallon. Under an exclusive basis we estimate 6 tanks minimum 72,000 gallons, an agent $1800.00 a year and a driver for 8 months at $800.00. There would be two trucks, one tamk and one stake. The estimated cost there on the exclusive basis is 4.02 cents per gallon as against 3.23. Referring to the Graph No. 10 on Nobleford it indicates very clearly there the usual conditions in the marketing of that particular type of agency. It shows wide fluctuations in 1937 in black. They do not rise very sharply in the first six months but in the first six months in 1938 they did and the same thing applies in the Fall of the year, August, September and October, where they reach a peak in September of 1970% as against the 100% in January 1937 and 163% in January 1938.

The next point is Carbon. In Carbon there is a total offering of 150,000 gallons, with three companies operating and including our own storage there is 75,000 gallons. Our gallonage is 58,197. Fixed charges and commissions, we have a cost there of 3.18. Under the exclusive franchise we estimate 6 tanks 72,000-gallons capacity, total. We estimate an agent for 12 months at $1800.00; a driver for 8 months at $800.00 and with our maintenance, depreciation on the two trucks, plus the estimated fixed charges and the interest, a cost of 4.35 cents per gallon. 1937 and 1938 were fairly consistent.

The next one is Delia. Delia has got 167,000 gallons potential. There are

two companies operating with equipment and one operating without. Capacity of 51,000 gallons. Our percentage of the total was 57,550 gallons. Our commissions paid together with fixed charges gave us a cost of 3.19; on an exclusive basis we estimate 6 tanks at 72,000 gallons; one agent $1800.00 a year; one truck driver for 8 months $800.00; two trucks, which with maintenance and depreciation plus the fixed charges would give us a cost there of 3.72. Delia in 1937, in the Fall of the year or in the four months where we usually get a large gallonage they went off, due to crop conditions. In 1938 it came right back showing the peak trend again which is usual for that type of operation or that type of agency.

The next is Ponoka. Ponoka has a total offering of about 442,000 gallons. There are four companies operating with equipment and there are two companies operating without equipment. 16 storage tanks, including our own, with a total capacity of 105,000 gallons. Our business was 126,403 gallons and our commissions and fixed charges gave us a cost of 2.01 cents per gallon; under the exclusive franchise we estimate we will require 10 tanks of 120,000 gallons.

Q MR. HARVIE: This is your first large station?

A First large station, yes. Salaries, we have to have one man in charge $1800.00 a year and would require one driver $1200.00 a year and we would have to have a second driver at $1080.00 a year and a driver for 8 months at $720.00 for the 8 months. The extra driver would naturally be required during the peak season to make, assist in making

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the deliveries to the farmers during that period. We would have to have three trucks which with maintenance and depreciation amounts to $2825.00 with a total cost over all of 2.35 cents per gallons as against 2.01 cents per gallon and looking at the Graph No. 13, the business for that two-year period shows it is fairly consistent; in other words there is a fairly good motor-car dealer business in addition to the farmer.

Strathmore is next.

Q MR. HARVIE: Just on that point, Mr. Miller, of Ponoka, by looking at your chart I see your dealer's business is something over double your farmers and is that true where you get a chart that runs consistent?

A No, it might be the case there where we happened to have more dealer business than we had farmer business. On the other hand the farm business might be all of one particular type of business and the dealer business would be less.

Q MAJOR LIPSETT: Is this point that I was asking you about before present here, in that case your dealer there at the present time he is getting commissions from you and he is also getting 4 cents or 5 cents spread to the public whatever it is?

A I do not know, Mr. Commissioner, whether he is a dealer-agent. If he was a dealer-agent then he would get the differential over tank wagon for his retail business but that would be entirely distinct and separate from ours because he would be in the same classification as any other dealer, he would have an investment, his dealer operations, such as garage or service station, whatever

it might be but it would be different from ours.

Q Would that be in addition to supplying trucks?

A He has ----

Q A spread of 4 or 5 cents a gallon on top of the commissions which he gets from you?

A They have nothing to do with the agency operation, Mr. Commissioner. The spread he would get on his retail business has nothing to do with our business.

Q No, but assuming he is getting 4 cents a gallon and at present he is supplying whatever trucks are needed, you are not supplying any trucks?

A No, sir.

Q Well now under your new set-up you are going to give that man his $1800.00 a year and you are going to give him two trucks to help him on top of that and on top of that is he going to get his 4 cents a gallon?

A Not from us.

Q From the public?

A He would if he is operating as a dealer.

Q A dealer business?

A Or a service station and garage, but that is distinct entirely. As a matter of fact, if we were going in there, Mr. Commissioner, and operating that point, and that would apply to practically any point over 150,000 gallons, that man that we would employ at Ponoka would be an absolutely exclusive agent, a salaried employee, having no other interests, no other business. He could not devote his time to any other business because our business would take his entire time to operate it as it should be operated.

Q Yes, but on the new basis, doing that, he would get this

$1800.00 plus the 4 cents or whatever it is, the spread he gets from the public?

A No, sir, this man ---

Q THE CHAIRMAN: This man is on a straight salary?

A Straight salary.

Q And he gets nothing else?

A A straight salary, an employee of the company and no other business.

Q MAJOR LIPSETT: He does not get anything from the public at all then?

A No, sir, not as a retailer.

Q If you are handling to dealers and farmers without that, why couldn't the same dealer that is handling now, handle it then?

A Well at the present time, sir, at that point as I show, we take 150,000 gallons out of there and while I have not got the record in front of me I fancy he is devoting his whole time to our agency business as it is.

Q He has now there, dealer and farmer, he is handling 125,00 gallons, that sized operation?

A Yes.

Q You do not need an exclusive agency at the moment, a full-salaried man?

A This man at the present time must be devoting nearly all of his time to our agency as it is although he is on a commission basis but you see he is only taking about 1/3rd of the total gallonage.

Q Yes, but he is taking over 125,000 gallons?

A He has 21,000 gallons in dealer business and 133,000 gallons in farm business and I would say that that farm business would take practically his entire time.

Q And he is operating at present with almost his entire time, without this straight salary, he is doing it on commission?

A He receives commissions and his commissions last year were $2,727.61.

Q Are you dealing with Ponoka?

A Yes.

Q The commissions I have are $1762.71?

MR. HARVIE: That is correct, Mr. Commissioner

WITNESS: I was on the Strathmore, $1762.71

Q MAJOR LIPSETT: Handling a total gallonage of 126,000 gallons?

A 126,403 gallons and 40,000 of that was to farmers.

Q And he is doing that without any full time salary?

A No, he gets these commissions and that is all he would receive but as soon as you get up, Mr. Commissioner, say to around 150,000 gallons up, particularly now in the case of the next point, Strathmore, where there is, the greatest percentage is farm business, it takes not only one man all his time to look after that but he has to have additional help and facilities in the peak seasons of the year but he pays that out of his commissions. We do not know how much he pays for it.

Q Well under your new set-up, giving it to a dealer, why do you need these extra trucks that are not needed at the present time for the 125,000?

A Mr. Commissioner, that is, you mean under the exclusive franchise.

Q Yes.

A Well that is if we have all the business and the only company operating at the point, we estimate that that is the minimum equipment and help that we can cporate on to take care of the dealer and farmer business in that area and that would have to be company-owned equipment.

Q But in this particular case he is handling 126,000 barrels without any truck, or 126,000 gallons rather, without any truck assistance from you at all?

A That is right, except he gets his commissions from us, 1 cent in town and 2¼ cents in the country, which amounts in total, plus his lubricating oils to an amount of $1762.71 and no doubt he has some other interests at that point; in other words, he has some other business. He might be an implement man or he might have a garage, a service station, hardware store, or in other words, he would be in the same classification as that 92% of our agents I mentioned yesterday on the questionnaire are in, 92% run some other business in connection with ours but as soon as we start to go in ourselves and operate exclusively or even where it is not exclusively, if our gallonage is large enough, say up to around between 150 to 350,000 gallons for instance, we really have to operate on an exclusive, an a company operated basis ourselves so our agent devotes 100% of his time on the commission basis to operating for us.

The next point was Strathmore. Strathmore 441,000 gallons, total offering. There are four companies there owning their equipment, including

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our own. It amounts to 71,000 gallons. There we have a dealer-gallonage of 21,779 and a farmer-gallonage of 133,809 gallons. Our commisssions there are $2727.61, which gives us a total cost per gallon of 2.67 cents. Now under the exclusive operation we estimate we will have to have 120,000 gallon capacity or 10 tanks. We would need one man in a salaried position of $1800.00 a year; one driver, full time driver, $1200.00; a second driver $1080.00 and one driver for eight months to take care of the additional deliveries at $720.00. Now we would have to operate three trucks. True we only need the third truck for maybe three or four months in the year and the second truck possibly we would only be using for seven or eight months in the year but the other truck would be used the year round. Nevertheless, we would have depreciation and costs and carrying charges on the equipment although it remained idle. On that basis we would be slightly under our commission basis, having a cost of 2.50. On the Graph No. 14 it shows the peculiarities again in the crop conditions inasmuch as in 1937 there was a peak period during the spring of the year. In 1938 the big peak was in the last three months or four months of the year. It shows there we had a total amount, a total percentage of 47.75%, during the four months of the peak and the fluctuations can be readily seen on that Graph, starting off in January 1937 at 100, or in 1938 at 133; the peak there in 1938 was 1179% in October.

The next point is Wainwright. There are just three or four more and they are the large points.

Q MR. HARVIE: Mr. Miller, just before leaving Strathmore, I note that your cost is 2.67 on the throughput of 155,000 gallons?

A That is right.

Q Whereas at Ponoka your cost is 2.01 on a lesser throughput.

A The difference there is that in Ponoka there was 86,000 gallons in dealer business on which we pay 1 cent a gallon instead of 2¼ as against Strathmore where we only have 21,000 gallons in dealer business but 155,000 gallons of farm business on which we pay 2¼.

Q And at a station such as Strathmore you need more equipment to handle it, is that it?

A Yes.

Q Thank you.

A Wainwright with an approximate total offering of 266,000 gallons; number of companies operating there are 6; storage tanks are 36 in number with 261,000 gallons capacity including our own; our dealer business 35,000 gallons, farmer 34,000 gallons, making a total of 70,679 gallons; fixed charges and commissions paid there made us a cost per gallon of 3.28; on an exclusive basis we estimate we would require 8 tanks, giving 96,000 capacity, or in other words there is one point there where undoubtedly there is far too much storage capacity of the companies in total. We would have to have one man at $1800.00; one driver at $1200.00 per year; we have to have two trucks, one tank and one stake, which

together with our fixed charges, our total cost per gallon would be 2.85 cents as against 3.28; in other words, there would be a saving at that point on the salaried operation , exclusive salaried operation. On the Graph No. 15 it gives you the trend of the business for the two years and the fluctuations starting off in January at 100% and in January 1938 at 127%. There was not very much variation there in the two years except a little variation in the months. The peaks were about the same.

The next point is Cardston, 400,000 gallons approximate total offering. There are five companies operating with equipment. There is one company operating without. There is 100,000 gallons in capacity storage including our own, consisting of 14 tanks and total. Our business, our dealer business was 44,803 and the farmer was 57,162, with a total of 101,965 gallons. Our costs on a commission basis there was 2.70; under the exclusive franchise for 400,000 gallon points we estimate we would require 10 tanks of 120,000 gallons capacity en toto. We would have to have one man for 12 months in charge of the business, $1800.00; one full time driver, $1200.00; a second driver, $1080.00; three trucks, the same thing would apply, one of those trucks would only be used maybe for four months and another one for six or seven and one for throughout the year. We would have a slight saving there having a total cost of 2.41 cents. On the Graph 16 it shows there again a wide variance over the two years.

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In 1937, whilst we had three peaks there, they were not as great as they were in 1938. In 1938 there they ran very heavy in the spring, the early spring. In other words, deliveries went up there in that period to, in June, to 1555%.

(Go to Page 11,000)

The next point is Red Deer. Red Deer has an approximate offering of 765,000 gallons, one of our larger points in the Province. There are seven companies operating. 25 tanks in there with 217,000 gallons capacity total. Our business is 83,071 gallons dealer and 76,413 gallons farmer, or a total of 159,484 gallons. The commissions we paid there were $2,733.50. We had a total cost per gallon of 2.72 cents. Under the exclusive franchise we estimate that we would require 15 tanks of 180,000 gallons capacity. Possibly we could get off with 12. We would have to have one man there at $1800.00 a year. We would need a warehouse man at that point at $960.00 per year. We would need four drivers, one at $1200.00 and two at $1080.00, and one driver for four months, $360.00. We would have maintenance and depreciation on that truck and equipment, amounting to $4,113.00, which, together with our fixed charges, would give us a total cost of 2.09 cents per gallon. In other words, we would make a saving there as against the commission operation. At Red Deer the business is more uniform as can be noted on the chart 17. There are no great extremes at Red Deer due to the mixed farming operations and the motor car dealer business holding its own pretty well with the farm consumption.

Camrose has an estimated potential of 825,000 gallons. There are 8 companies operating there. There are 28 tanks with 465,000 gallons capacity in total, including our own. There are two trucking operators in there without equipment. Our dealer gallonage is 79,000 and our farmer gallonage is 125,000 gallons. Our total gallonage is 205,000

gallons. Commissions there are $3,706.16, which, together with our fixed charges, gives a total cost per gallon of 2.76 cents a gallon. With an exclusive franchise we estimate 180,000 gallons capacity of storage; an agent 12 months, $1800.00. When I say "agent" I mean branch manager. A warehouse man, $960.00 a year; one driver, $1200.00; two drivers at $10 80.00, and one driver for 6 months at $480.00. We would require 5 trucks. Our total cost we estimate would be 2.02 cents per gallon, which is also a saving as against the 2.76 cents on the commission basis. The reason of the additional truck operation can be clearly seen by the graph. Graph No. 18. There we have two highs, where in the Fall of the year, both were similar, whilst 1937 reached a higher peak than 1938 they were somewhat similar. Then in the Spring or early Summer of 1938 they reached a peak and in 1937 we did not have any material increase.

The next one is Wetaskiwin. Wetaskiwin has a total offering of 614,000 gallons. Number of companies operating, 7. The number of tanks, 24, with a total capacity of 204,000 gallons. Our dealer business is 83,000 gallons and the farm business 46,978 gallons or a total gallonage of 130,000 gallons. Our commissions and fixed charges give us a total cost of 2.48 cents per gallon. Under the exclusive franchise basis we estimate we would require 12 storage tanks with a capacity of 144,000 gallons. We would have to have one branch manager at $1800.00 a year; one driver at $1200.00 a year and two drivers at $1080.00 a year, and one driver for six months, $480.00. We would require 4 trucks in order to

make deliveries at that point, giving us a total cost of 2.18 cents per gallon, or a saving as against the commission operation.

Drumheller. There is an approximate offering of 540,000 gallons. There are 7 companies and 26 tanks with 174,000 gallons capacity. Our dealer business is 46,878 and our farmer business is 68,417, or a total of 115,295 gallons. We estimate there our costs would be 3.07 cents per gallon on the commission basis. At least that is our cost. On the exclusive franchise we estimate 10 tanks with 120,000 gallons capacity. One branch manager, $1800.00 a year; one driver, $1200.00 a year; one driver, $1080.00 a year and one driver 9 months at $720.00. 4 trucks. Our total cost there we estimate would be 2.26 cents per gallon, which is a saving over the commission operation.

The next point is Three Hills. 427,000 gallons offering. There are 5 companies and 13 tanks, including our own, with 66,000 gallons capacity. Our business, dealer, 43,000 gallons; farmer, 87,000 gallons, or a total of 130,000 gallons. Our fixed charges and commissions cost us 2.98 cents per gallon. On an exclusive basis we estimate 10 tanks of 120,000 gallons capacity total. One man in charge, 12 months, $1800.00; the first driver, 12 months, $1200.00; the second driver, 12 months, $1080.00. The third driver, 6 months, $480.00. We would require 3 trucks, and we estimate our cost per gallon would be 2.71 cents or not very much different than what it is on the commission basis. Three Hills on graph 21 gives you the variants during 1937, business went down, no doubt,

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due to crop conditions. In 1938 the business went up to 1,017% in October and 622% in September, starting off in January at 66%.

I would just like to refer you for a few minutes to the pages where we give you the combined operation of the exclusive franchise cost and our own, and I will deal with that in the total. The small points.

Q THE CHAIRMAN: Page?

A Page 18, Sir. The small points there, it gives you an average as against the commission operation, that is the competitive situation regardless of the number of companies in there, that is in black. In red it gives our cost, estimated cost on the exclusive basis. The small points it shows there that we would have a cost covering the first 5 of 4.42 cents per gallon on the exclusive basis as against a cost of 3.76 cents per gallon on the commission or non-exclusive basis.

The medium points, which we have discussed, it shows there that on an exclusive basis and-----

Q MR. HARVIE: That is on page 20?

A Page 20. We estimate that our cost would be 3.74 cents per gallon, covering those points as listed, of which there are 7, and on the present basis, that is regardless of the companies operating, on a commission basis, and taking our share of the business, our cost would be 3.21 cents per gallon; The large points, of which there are 9, give us a cost on the exclusive franchise operation of 2.37 cents per gallon as against a commission operation, regardless of the number of companies operating of 2.74 cents per gallon. The total over-all, taking the small points and medium

points and large points, of which in total there are 21, representative of the Province of Alberta, on the exclusive franchise basis we estimate our costs would be 3.32 cents per gallon as against the commission operation, regardless of the number of companies operating, our total cost would be 3.14 cents per gallon. Now, as I said in starting out, we have set these figures up on the most conservative basis we could. We tried to estimate exactly and to know conservatively what we would want in storage and other facilities. In addition to that, however, I mentioned that deliveries would have to be made to the farmer at our convenience, notwithstanding the fact that we would have that much equipment and that number of trucks to make deliveries to the farmers. It could not be made if, as and when he wanted it. Furthermore, to-day it would be even more difficult to do that and it would add very much more to the cost of exclusive operations due to to the Labor Act and the regulations governing the Labor Act. To-day we cannot work these men over 8 hours a day. So, therefore, there would be additional men employed than we have shown here to take care of the business and that particularly applies in the Fall of the year because when the farmers are harvesting our experience has been that our agents are making delivery from dawn until dark. Therefore, I feel that that should be taken into consideration and definitely it would increase over and above the figures we have given you here our cost in every case.

Q MR. FRAWLEY: That is one reason, Mr. Miller, that you would be inclined to not go into salaried operation

because you are now leaving to your commission agent an operation which, perhaps, does extend over the hours fixed by the Hours of Work Act?

A As I said, the way the business is now divided, it is economical and we can operate fairly efficiently with commission agents. But where we would have the entire business I do not think that is possible because we would have no assurance of being able to have stability and give the service that would be necessary in this western operation by commission men if we did it all. In other words, we feel we would have to company-operate in order to give efficiency and to take care of the requirements of the farmer and the dealer and our own interests in the best manner possible.

Q THE CHAIRMAN: Why, Mr. Miller. Why does that greater responsibility thrust upon you change the moral worth of the agent, so that you have to have him under your direct control?

A In the first place he might not wish to make the investment into trucks in order to give efficient delivery. In other words, he might use old trucks and he might consequently have considerable break-down and delay and not give that service to the consumer that is essential over the year. As we outlined last week, there is a definite loss to the farmer in this western country unless he can secure his requirements immediately they are wanted. Then there would be changes, and far more hazard------

Q Pausing right there, what is your view. We have had some discussion on it but just in a word what is your view as to whether or not deliveries should be made or they should be made to use the cash and carry plan?

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A Well, under the old distribution that we had, that is the way we operated prior to this, I would say it would be very detrimental to the farmer if we had not made delivery and given the service we did in the past. But if you make his requirements more accessible by bringing them to a close distance within his easy reach, within a few miles, then it is not so serious.

Q You are in favour of continuing deliveries to farmers, are you?

A I would say "No, Sir, we are not", if our distribution, when our distribution is made wide enough, and the petroleum products are available to the farmer in every district making them within easy reach for him to secure economically and within reason, I would say free deliveries are unnecessary.

Q MR. COMMISSIONER LIPSETT: You think when these new farmer warehouses are set up you would bring the gasoline near enough to the farmer to eliminate the disadvantage?

A Yes, Sir, I do. Because, as I said this morning, you are going to have a definite decrease in consumption by farm operation over the next few years. As the inadequate equipment becomes replaced they will get longer running hours per gallon over what they are to-day and consequently their consumption will decrease. The farmer will possibly come in and take out a barrel or maybe two barrels at the maximum and it will last him till he can get back in again and take out two more. Except maybe the larger operator who is operating on a wide scale, maybe several sections of land.

Q Ultimately your scheme will work out that the farmer will

not only come and get his deliveries but he will provide the receptacle?

A Yes, Sir.

Q Ultimately it would tend towards that?

A Yes, that is right. As it is though we cannot-----

Q THE CHAIRMAN: You cannot stop until everybody else stops?

A We cannot stop. The only way we could discontinue free delivery would be by legislation.

Q What is it costing you. Have you ever figured it out?

A It varies, Mr. Chairman. I will say this-----

Q What does it cost per gallon?

A It would cost us on exclusive operation, or it would cost the company far more if we were doing the operation and making the delivery on a company-operated business than it does our commission man, because our commission man is using these trucks for other purposes. There are hundreds of cases throughout the western operation where the commission agent will take out oil and bring back grain. Or he will bring back livestock or repairs or something else. But with us we would have to make that delivery and make it exclusive for that purpose only, and that is the delivery of petroleum products.

Q There is some cost attached to it, which must be reflected somewhere in your total cost?

A Our cost is 1¼ cents per gallon on farm business.

Q MR. COMMISSIONER LIPSETT: 1¼ cents?

A Our cost is 1¼ cents on farm business.

Q Out of that the agent provides delivery?

A Out of that the agent provides the truck, supplies the oil and gas for his truck and repairs and help and licence and

insurance and carries the depreciation or any other charge. As I said this morning, we cannot do it.

Q THE CHAIRMAN: You estimate at least 1 cent for actual cost, do you, to the agent?

A We actually pay him $1\frac{1}{4}$ cents on all gasoline or kerosene or distillate delivered to the farmer.

Q But granted he is entitled something for his operations, $1\frac{1}{4}$ cents-----

MR. COMMISSIONER LIPSETT: Now, the $1\frac{1}{4}$ cents includes his remuneration plus his cost of delivery?

A That is right, Sir. Plus 1 cent commission on the sale, which makes it $2\frac{1}{4}$ cents. He gets 1 cent commission on the sale of the product and then we pay him $1\frac{1}{4}$ cents to reimburse him for this cost of delivery.

Q THE CHAIRMAN: That is associated with delivery?

A Yes.

Q In short, it would be a saving to the industry, as far as you are concerned, of $1\frac{1}{4}$ cents, if there were no free delivery?

A On farmer sales, yes.

Q On farmer sales?

A Yes.

Q A cent and a quarter on farm sales?

Q MR. FRAWLEY: You would still give the agent 1 cent, even though the farmer came and got it?

A Yes, 1 cent commission.

Q THE CHAIRMAN: But not the cent and a quarter we are talking about?

A No. As I said, I think last week, in the early days the total commission was 1 cent. There was no such thing as delivery. When delivery was started the farmer paid for it.

He paid anywhere from 1 cent to a maximum of $2\frac{1}{2}$ or 3 cents, according to the mileage the agent had to make the delivery to him. Then it drifted into free deliveries and it has been that way ever since.

Q MR. COMMISSIONER LIPSETT: If the farmer instead of getting free delivery at his farm, if he came in to the agent would he still pay the $2\frac{1}{4}$ cents. That is, would the agent still get the $2\frac{1}{4}$ cents?

A No, he would only get the 1 cent, Sir. If the farmer came in to take the gasoline out the agent would receive 1 cent.

Q THE CHAIRMAN: You see, it might be an advantage to the farmer to come in and get it and not a dis-service if he knew that he was making a cent and a quarter every time he came in, per gallon?

A As I said the other day, Sir, that is nothing new. That applies to-day in the three western Provinces.

Q If the farmer drove into a station to-morrow, would he not get the farmer's price that John Smith would who got it delivered on to his farm or would the agent knock off the cent and a quarter?

A No. Sub rosa, by an arrangement between the agent and the farmer, as I was just going to say, there are certain points to-day where the farmer does come in and the agent gives him 1 cent in place of him making the delivery. In other words, that nets to the agent $1\frac{1}{4}$ cents and the farmer gets a cent less in his price, and he is tickled to death and has gone back to his farm and saved 1 cent a gallon.

Q That is not general?

A No. The agent is also tickled to death because it results in more money as against in many cases losing money. In

other words, it is costing him more than we pay him to make delivery in many cases. That is eating into his 1 cent commission or his lubricating oil commissions in addition to the $1\frac{1}{4}$ cents we pay him.

Q You see, if that is a fair transporting rate, one would think that the farmer would be interested in it, in doing his own hauling if he got the benefit of that haulage rate.

MR. HARVIE: And if he has the equipment to haul.

Q THE CHAIRMAN: Yes, if he has the equipment to haul. Well, if he has not the equipment enough to get his own supplies out he, perhaps, should not be farming.

Q MR. FRAWLEY: The implement company does not worry about him. It is really a tragedy if the farmer has a breakdown in his combine or separator at harvest time, but the implement company does not rush out there with his missigg part or his broken part, as I understand.

A They may not, Mr. Frawley. But there again, and I speak from experience in that regard, a lot of these implements are delivered to the farmer by our agents. That is, the part, when he breaks down.

Q MR. COMMISSIONER LIPSETT: I suppose the reason your agent can do it for the cent and a quarter and the farmer does not jump at that is that I suppose your agent can take out a considerably larger load if he goes and delivers to two or three farmers than if each individual farmer had to come in for his own load?

A They could at one time, a few years ago, our agents used to try and operate on that basis.... They used to try and pick out an area where Farmer A would take 2 barrels and next door Farmer B would take 2 barrels, and Farmer C would

take 2 or 3 barrels just close by. But as I said this morning, or yesterday, it is so difficult, you just cannot arrange and nobody can arrange synchronization of deliveries due to the different operations of the farmer. Farmer A sometimes sows before Farmer B and Farmer B sometimes ploughs or seeds before Farmer C. Then your weather conditions and the harvest season, plus these facts I mentioned, that one man might have put his crop in, one farmer might have put his crop in 10 days earlier than the other, and Farmer A, probably his crop is ripe and ready to take off on the first of September and Farmer B is not ready until the 15th of September. And as these fellows have not got, they are not free with money to buy their material ahead, they won't do it till the very day that they need it and then they want it brought right out.

Q But the farmer, I suppose, coming himself for delivery, he has always got simply his own single load, and in the case of the agent I suppose he can quite frequently, while he might not get a full load he will get more than the individual farmer, and consequently in that way I suppose he can do it really cheaper than each individual farmer delivering for himself?

A Well, Mr. Commissioner, could I refer you back to that questionnaire for a moment?

Q Sure.

A I think that gives the picture very well. If you go to the last page, and we mentioned there-----

Q Just what page is that?

A The last page, Sir.

MR. HARVIE: Graph 16, page 7.

A At the top there we have right here all the various headings

take [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible], [illegible] [illegible] it is so difficult, so [illegible] [illegible]

[illegible] and [illegible] [illegible] change arrangements [illegible] [illegible]

due to [illegible] different conditions of [illegible] [illegible] [illegible]

sometimes [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] [illegible] [illegible]

or [illegible] [illegible] [illegible] [illegible] [illegible] weather or [illegible] [illegible]

[illegible] [illegible] [illegible], [illegible] those [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] have [illegible] [illegible] [illegible], [illegible] [illegible] [illegible]

put [illegible] [illegible] in 10 [illegible] [illegible] than [illegible] [illegible], [illegible]

4, [illegible] [illegible] [illegible] [illegible] [illegible] to take [illegible] on the

first of [illegible] [illegible] and [illegible] [illegible] [illegible] until the 15th

of [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

are not [illegible] [illegible] to buy their [illegible] [illegible], they

don't do it [illegible] [illegible] [illegible] [illegible] they [illegible] [illegible]

they want [illegible] [illegible] [illegible] out

Q But the [illegible], [illegible] [illegible] [illegible] for [illegible],

[illegible] has [illegible] [illegible] [illegible] [illegible] [illegible], [illegible]

case of the agent [illegible] [illegible] [illegible] [illegible] [illegible],

[illegible] he might not [illegible] [illegible] [illegible] [illegible] than

the individual farmer [illegible] [illegible] [illegible] [illegible] I

suppose [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] individual

farmer [illegible] [illegible] [illegible]?

A Well, [illegible] [illegible], [illegible] [illegible] you [illegible] [illegible]

question [illegible] [illegible] [illegible]

Sure.

A I think [illegible] [illegible] [illegible] very [illegible] [illegible] [illegible]

[illegible] ago, [illegible] [illegible] [illegible]

Q [illegible] [illegible] [illegible] [illegible]

A [illegible] [illegible], [illegible]

[illegible]: [illegible] [illegible] 16, [illegible] 7.

A [illegible] [illegible] the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

A. H. Miller,

and the question is "Can delivery be made at our convenience?" 98% of our people in the Province of Alberta said it was impossible. 2% said it was possible at certain seasons of the year. Then we ask whether they are hindered by weather conditions and 90% say they are and 10% say they are seldom hindered. Then further on you will notice "Has agent any other business?" 96% of them have some other business. In other words, our business is a side-line. Then we ask "Can agent presently make delivery without truck?" 98% say "No." In the last column there we refer to the type of truck and whether it should be a large truck or a small truck. 96% are in favour of light trucks. I can understand quite well how they have arrived at that opinion because many of our agents that used to operate a one ton and a half and two ton truck, that was in the days when there were good crops , and either by giving credit or by the farmer being in a better position financially he bought his requirements in large lots. In other words, if he thought he was going to require 16 drums of gasoline in the harvest season he would tell the agent to bring him out 8 drums to-day and he would get the other 8 after he used the first 8. Which meant two deliveries to the farmer. But what the agents are having difficulty in to-day is the fact that the farmer in the first place is not in that same position financially to buy large quantities and even if he was, in many areas, due to the small crop and the light crop and so forth, he is not using as much.

And regardless of the cost it might be the average farmer today wants to buy a barrel or two or three barrels. A big order for the farmer to make today is a three barrel order and there are agents, it says here 96% are in favour of light trucks and these light trucks are very light, they are just a light delivery and they stick a barrel on or two barrels and go out to the farmer and make that delivery, 10 miles, 12 miles, 15 miles as the case may be but we know they cannot do it profitably. As I said the other day even a 2¼ cents commission on farm sales we are not paying them any more than we should do and in some cases I do not think we are paying them enough.

Q THE CHAIRMAN: What does it mean in your total gallonage, if this were eliminated, it is just a matter of checking your farm deliveries with the total deliveries?

A At the present time, sir, it is around about 50% farm trade and 50% motor car and truck.

Q 50%?

A Yes.

Q MAJOR LIPSETT: What happens to the cent and a quarter, Mr. Miller, under the new set up?

A Well do you mean the new distributor dealer?

Q Yes?

A He receives 1 cent, that is the authorized buyer's discount and in other words when he sells to the farmer he makes 1 cent per gallon the same as he makes today. If he sold to the farmer at the warehouse or the dealer in town and while free deliveries are in effect we will subsidize the dealer distributors to the extent of 1 cent per

gallon to make deliveries to the farmer.

Q 1 cent?

A Instead of $2\frac{1}{4}$.

Q Instead of $1\frac{1}{4}$?

A Instead of $1\frac{1}{4}$.

Q Then when the delivery ceases what happens to that cent or the cent and a quarter?

A Then we do not pay it any more; in other words he just gets 1 cent. We will go back right to where we were in 1921 when the man got 1 cent.

Q And that will go direct to the refinery company towards the new capital structure and the new capital expenditure, is that it?

A You mean the 1 cent?

Q Yes?

A The delivery charge would be saved by us.

Q By the companies?

A Yes.

Q And as against that you would be setting up these warehouses all over the country?

A Quite right. We are making a considerable investment there, a capital outlay in putting up this new form of distribution.

Q But so far as the actual price to the farmer is concerned if there is any additional bonus in getting it to him he has to bear it?

A That is right.

Q He has to come to the nearest point?

A If free delivery went off, yes.

Q MR. FRAWLEY: Explain that to me, if free

delivery were discontinued, where would the advantage go?

A It would go to us. We do not say exactly where it would go.

Q THE CHAIRMAN: He said there would be a saving of this cent and a quarter?

MR. HARVIL: That would be given effect to over the long time in the race or the amount charted for gasoline?

A Probably. As a matter of fact, Mr. Frawley, I said the other day------

THE CHAIRMAN: He has not said, Mr. Frawley. You can ask him.

MR. FRAWLEY: I want to see if I can understand and that is all. Please tell me the difference, you say if you discontinued deliveries the farmer would come to the warehouse and get his goods at the posted tank waggon?

A Yes.

Q And the dealer of course, your new dealer distributor would get the 1 cent additional discount, the 100% dealer?

A Yes.

Q And the company would save a cent and a quarter on the dealer distributor not taking it out to the farmer?

A That is right.

Q Then that means you have a cent and a quarter more spread as I see it?

A I do not know whether we have more spread, Mr. Frawley. It is true we would save that 1¼ on the farm delivery.

Q On that gallonage?

A That we are paying on the farm delivery but as I said the other day we do not know, we might even, if free deliveries

continued, we might have two prices, one a delivered price and one the f.o.b. warehouse price. Now that is only something that we are considering; in other words if the consumer came into our warehouse he would save or if he does not save, he would buy for a less price than he would buy if he asked us to deliver it to the farm.

Q But today, just today----

THE CHAIRMAN: He would have a saving of a cent and a quarter on 50% of his gallonage and he does not want to say what he would do with it but he does not want ito to go into taxes, that is all he is clear on yet, as yet.

MR. FRAWLEY: I am not so far out them when I say with respect to that gallonage, which you now say is 50%, you would have an additional $1\frac{1}{4}$ spread?

A We would save a cent and a quarter on all sales we now make to the farmer and deliver those sales to him.

Q MAJOR LIPSETT: Subject to depreciation and the interest on your investment in these new warehouses?

A Yes.

Q MR. FRAWLEY: Oh yes, he is making the change, that is what I was a little bothered about, Mr. Commissioner, that you were relating those two things together. This company in its wisdom has decided to change its marketing system and I presume it has some capital investment and some capital savings perhaps and perhaps it is not improper to relate the two. He is saving those and we have now that he is saving this amount on his 50% of the gallonage.

Q THE CHAIRMAN: That capital investment is made regardless?

A Yes.

Q They are doing away with a system which the witness says is obsolete and putting in one which he thinks is up-to-date but that does not touch the cent and a quarter?

MR. FRAWLEY: That is my point. I did not relate them very quickly.

Q MAJOR LIPSETT: Mr. Miller, I think the cent and a quarter may go some way and be needed in some way towards this capital outlay because you are setting up 71 points where farmers can get wholesale warehousing against 40 at the present time?

A We are setting up several hundred points, Mr. Commissioner; I would say this, that as I see the future, looking to the next ten years, that not only is this new system of distribution of ours favourable to the consumer, that is the farmer in the Western Provinces but it is most essential, because as I say his consumption or his purchases, whichever way you like to put it, are going to be less than they have been and are going to get less each year from now on. He is going to buy in smaller quantities. It is going to be absolutely uneconomical for anybody to make delivery to the farmers as their consumption further decreases, therefore the wider distribution we can make in the Prairie Provinces of our petroleum products where the farmer can buy at wholesale prices and the more we can make those accessible to him, the greater service we are going to give to the communities; in other words, although it would be uneconomical for the company to make delivery to the farmer on account of

the small quantities, he still will have some protection against that hazard of being delayed in securing those requirements when the harvest season is on and consequently will still be saved losses that he would sustain if they were not available.

Q THE CHAIRMAN: You have all that in contemplation?

A Yes.

Q Pursuant to the scheme which would permit of your amortizing your capital investment and getting what you conceive to be a fair return on your money, quite regardless of this cent and a quarter which is yet only a hope?

A That is right.

Q And if it is a hope that is realized it will be reflected in the spread, as Mr. Frawley says, to the extent of 50% of your present gallonage, but you say that "We have plenty of use for that and our profits are not too great"?

A That is right.

Q That is your immediate rider but the fact is it is there?

A Yes.

Q MR. FRAWLEY: Now Mr. Miller, you said you were bringing your products closer to the farmer and it may very well be that you are over-all but I notice though in looking at the one district, distributing division of Stettler, that it is just the same as it was before, you had agencies at Castor, Fenn, Donalda and Alliance and Stettler of course and now you have dealer distributors at those same points but in other parts of the Province I understand you are having more dealer distributors than you had agencies last year, that is the point

is it?

A Well if you will refer back to the statement I made the other day on that, I said that we were going to install facilities for wholesale sales to the farmer to enable him to buy his requirements at wholesale prices in every place in the Prairie Provinces where there is necessity and convenience to the farmer.

MR. HARVIE: There will be a dozen or more.

MR. FRAWLEY: Yes, there will be a lot of dealer distributors?

A Yes. As I said we estimate at the end of this year there may be 500; at the end of 1940 there may be 1,000, I do not know.

Q All of these places you gave us the pictures of?

A Yes, but we will definitely put these in and see that the farmer can get his requirements when he wants it, according to the necessity and convenience.

Q I think I am understanding you and just keeping to this, it may very well be that during this year you might put in dealer distributors at Gadsby, Nevis, at these places where there are now, where you have now no dealer distributor and no agency, no old agency?

A Quite.

Q I understand?

A We are putting them in now every day?

Q Yes. Now that is why I think, and I asked Mr. Harvie some time ago, this very fine map which you have showing your district divisions, if you would superimpose upon that the dealer distributors, just with a little red dot perhaps, where you have the dealer distributors, it would show with

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respect to each district, the distributor districts where they were or at least are. Now Mr. Miller, I have only one thing I think to ask you; very likely Mr. Cottle will want to examine your statement which you have put in this afternoon, comparing your present set-up with the proposed one hundred per cent franchise set-up and will you prepare and file as an Exhibit some particulars of the estimated fixed charges; that seems to be the only figure there that does not speak for itself pretty well, you have estimated fixed charges both with respect to the present set-up in black figures and with respect to the proposed set-up in red figures, would you show just what these estimated fixed charges are?

A Yes, we will be glad to do that.

THE CHAIRMAN: I think we will retire for a few minutes.

(An adjournment of ten minutes was here taken)

(Go to number 11,021)

Q MR. FRAWLEY: I just have one more question. You are about through with your second volume, aren't you now?

A In about 20 minutes or half an hour.

Q Then before we leave that, I will ask you one question arising out of your discussion with the Commissioner. You said that sub rosa now the agent was saying to the farmer that if he would truck his own stuff out he would allow him 1¢ off the price. Is there any reason in the world why that should be sub rosa, and why that should not be posted right on thefront door of the agency?

A Well, the only reason I have referred to that as sub rosa is that that is something the agent is doing himself. In other words, we pay our agent 1¢ per gallon commission for sales f. o. b. warehouse, the only exception being to dealers in the town to which he delivers.

Q That is 50% of your business?

A Then we pay him 1¢ per gallon commission on sales to the country and 1½¢ per gallon cartage, making a total commission, as we call it, of 2½¢. So if our policy is 1¢ f. o. b. warehouse and the agent naturally when the farmer comes in and is willing to take it out and he is going to pay him 1¢ to take it out because he thinks he can save money by so doing, he simply charges it as a country delivery. That is the only thing that makes it sub rosa.

Q THE CHAIRMAN: He is getting ½¢, in short?

A He makes an extra ½¢.

Q He charges you 1½¢ and gets the work done for 1¢?

A That is right, sir.

Q MR. FRAWLEY: And that is probably good business. As far as you are concerned, you people do not mind. You have laid yourselves out to pay the $1\frac{1}{4}$¢?

A It is one of those things it is difficult to police. It would cost us a lot of money. If the agent says it is a farm delivery - we have a record of our dealer sales.......

MR. FRAWLEY: He is making $\frac{1}{4}$¢ on Mr. Miller.

THE CHAIRMAN: Yes.

MR. FRAWLEY: That is where the thing comes in, that $\frac{1}{4}$¢.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: If he would give the farmer $1\frac{1}{4}$¢ would you mind, if he passes the whole thing on, it is all the same to you. The goods get out there?

A I think I would mind because if that agent could make an extra $\frac{1}{4}$¢ in connection with our over-all operation, he is certainly entitled to it,,and I would like to see him do that. But in the information I gave you there relative to the 1¢ in town and the $2\frac{1}{4}$¢ in the country, that is on our 1938 business. For 1939 and for all subsequent years, the agent will get 1¢ plus 1¢ for cartage. In other words, we do not pay the $2\frac{1}{4}$¢ any more. We only pay 2¢.

Q The Imperial has never been anything else?

A No, but the Imperial had a different operation to what we have?

Q Up to now your operation has been the same as the Imperial?

A Yes, except that they had twice as many points as we had.

Q What you are saying then is you do not think you can vary your operation to that extent right now, and just simply say for the purpose of educating the farmer to go into this

cash and carry business and coming in and getting his own stuff........ You see, I put something to you that I put to the Imperial perhaps in a casual conversation and they did not think much of it, and it was simply this. The farmer is going home on a Friday evening or a Saturday evening or any other evening with an empty truck and he goes by your agency and he says to your man "Bring me out half a dozen barrels tomorrow afternoon. I need it tomorrow afternoon. I need it tomorrow afternoon or for the first of the week." The dealer says "Take it out yourself." The farmer says "Oh no. I will not. You bring it out to the farm. I have to pay the same price if you bring it out." And your agent has to do that sort of business instead of the farmer filling up his empty truck with this dozen barrels or so of gasoline, and making it worth his while perhaps. But the farmer goes on his way home empty and it makes you people go out in a couple of days to take that stuff out. He says "I am not interested." Surely it would make it worth his while and he would be interested, would he not, if he got 1¢ off?

A As I said, we have to give service to our customers and we have to meet competition. I said also we were considering two prices to the farmer, one a delivery price and one an f. o. b. warehouse price. In other words, the farmer might make a saving where he came in and bought f. o. b. warehouse.

THE CHAIRMAN: Of 1¢?

A It might be 1¢. We have not figured it all out. It might be ½¢ or 1¢. And that would particularly apply to that farmer that you speak of who is in town and going by our

warehouse. It is true that many farmers may be for 75% of their requirements would be willing to come in and make a saving and take it out and buying it f. o. b. warehouse price, the other 25%, which of course applies more or less in the Fall of the year, which is the most important part of the year, he wants the service. He does not care about making that saving, and he would like to have it brought out for him. Therefore, as I see the picture, looking at it from the over-all and from the competitive situation, and from the angle of the farmer receiving service that he should receive, and also from the angle of the companies making their operations efficient to meet economic conditions, I do not think that anything can be done regarding free deliveries unless it is done by legislation. In other words, if by edict or some other way, it is determined that the oil industry will not make free delivery to the farmer, then that would solve the whole problem, particularly if the distribution is wide enough to enable the farmer to get his requirements easier than he has been in the past.

Q MR. FRAWLEY: The farmer is just a human being with a lot of human nature in him, and it is hard for him to give up voluntarily something that you people have been giving him free over the past years. Because I suppose without being critical of your company, it was the companies who offered this service that brought the farmer up to this present situation?

A Competition brought it about, naturally.

Q Competition, which means that some oil companies of big enough scope to be felt offered to make free delivery, that is about it?

A It is not always the case. It may be the other way. The smaller operator might determine on a policy of that kind.

Q Just one other thing, you have told me two or three times your company have not just arrived at a final conclusion with regard to some of these things, and without desiring to hurry you, and I know you would not let me do that anyway, but I am speaking for myself and also for the Commission, it would be very well to have your considered view about this some time before the Commission has to write its report?

A I will be glad to let you have it.

Q You say it might do this and it might do that, or we are considering this, but to have that crystallized, I think it would be helpful?

A All right, sir.

Q THE CHAIRMAN: With the present operation that is in existence today, as I understand it, if free deliveries were eliminated, there would be a saving of 1¢ per gallon on 50% of your gallonage?

A Yes, sir, approximately 50%.

Q And you are making it 1¢ in 1939 as against 1$\frac{1}{4}$¢ in 1938?

A It would be a saving of 1¢ a gallon on sales made to farmers.

Q Which, as I understand, is, speaking roughly, 50% of your gallonage?

A Approximately that percentage. But that percentage is decreasing each year. In other words, we might find say that percentage a year from now, 60% dealer and 40% farmer. When I say dealer I mean motor, truck and bus consumption.

Q MR. COMMISSIONER LIPSETT: You do not contemplate, Mr. Miller, that with the decrease in the gallons per tractor that is necessary and with the improved tractors and whatever else there is, that the ground might be made up by greater mechanization among the farmers, that is, by more tractors than there are at present?

A Yes. There might be more mechanization. They might determine to do their entire operation mechanically, in which case that would increase the consumption somewhat.

Q THE CHAIRMAN: And during the course of time there might be more farmers and more people farming and more people requiring machines and more acreage tilled, in short?

A I sometimes think there might be more farmers and smaller farms in many areas, excepting the grain growing belt like southern Saskatchewan and southern Alberta.

MR. COMMISSIONER LIPSETT: I suppose it is highly speculative now what the result might be?

A Very.

Q MR. FRAWLEY: Why do you make your agent deliver free to dealers, to service stations and garages, That, in effect, is what you are doing, is it not? You give him 1¢ a gallon and that is all he gets on that dealer business?

A Yes, that is right.

Q And out of that 1¢ he makes delivery?

A That is right.

Q And sometimes he has to go out of his own town. I suppose you have some retail outlet at East Coulee in the

Drumheller district where you have not agency , and your agent at Drumheller would have to make delivery to the garage or service station or pump at East Coulee?

A Yes, sir.

Q Without any recompense at all. Which may be, according to this map, 10 or 12 miles, and that must be going on all over the province?

A No, he is recompensed for that, Mr. Frawley. Any delivery to that dealer he will receive the same consideration as he would do if he was delivering to a farmer.

Q He is not then required to make delivery to dealers out of his 1¢?

A Only at the agency point?

Q Only at the agency point? Then he must go from wherever he happens to be, but it is limited you say. He might have to make a half-mile delivery, but perhaps that would be about all?

A That is all.

Q And in Calgary and Edmonton where the distances would be larger, that is company operation?

A You are quite right.

Q Haven't you got any place where these little towns are so close together. If he goes out of his own town at all he gets a cartage allowance?

A Well, I can probably illustrate that to you in this way. Say our agent, take a branch up here, say our agent at Rocky Mountain House made a delivery to the dealer's pump at Horburg, that agent would receive the same rate of commission and cartage as if he had made that delivery to a farmer in this area. In other words, he would get 1¢ plus 1¢ cartage,

which is 2¢. On the old basis 1¼¢ cartage or 2¼¢.to any dealer at an adjacent town to that at which our plant is erected.

Q Well, let me see now,.that is about roughly you say 50% of your business. You are not thinking of doing anything different there. You are not thinking of making two prices for the dealer, one if he comes and gets it at your agency himself, and one if it is to be delivered to him?

A Two prices to the dealer?

Q Yes, two prices to the dealer?

A No. The only thing we would take or the only thing that would be practicable would be the f. o. b. warehouse price to the farmer or the delivery price to the farmer.

Q And not to the dealer?

A No.

Q Do not a lot of these dealers in the country operate hardware stores and garages and have trucks which they should be perhaps expected to use and go to your agency point and get delivery?

No, very few of these dealers at adjacent points such as Horburg would have facilities to go to the agency and pick up the petroleum requirements. And if he had, he would not be very anxious to do it, because no doubt he is using them in connection with his own business at Horburg. The farmer is different. The farmer has got a wagon or he has got a truck and the farmer invariably has to go to town and buy merchandise, and when he is doing that, he would go and pick up his gasoline, but the dealer at the adjacent town is living in that town and he is only interested in that town. He has no interest at all to take him to another town to pick up any other merchandise.

Q Well I do not know of course and perhaps it is not very useful to be conjecturing about it but it seems to me if I was operating a garage at Homburg, I would have a truck, it would not be very much of a garage if I didn't have a sort of service truck, and it would seem that I would drive into your agency at Rocky Mountain House or whatever the place is and get something off my price?

A I do not think you would, Mr. Frawley, unless you were going there on other business. That is our experience.

Q MAJOR LIPSETT: Would that not only apply, perhaps, Mr. Frawley, if there was somebody that had the drums and if they did not you would send the big truck, I suppose?

A Well the average dealer, Mr. Commissioner, is desirous of getting his gasoline delivered to his underground storage tanks to which his dispensing pump is attached, in tank wagon measure and tank wagon delivery. The reason for that is, in the first place, he is desirous of having that gasoline clean which he can only get, which he can only get continuously by tank wagon delivery. The drums, as you know, in farm service, get dirty, they get shale inside them, they get sand inside, they rust and therefore the dealers do not like deliveries to be made to their pumps by drums and in many cases we find that the consumer, that is the car consumer, is also particular and if he finds that a dealer is getting delivery by drums, he will sometimes switch over and go to the man who is getting delivery by tank wagon.

Q It is really a different class of business from the farmer business?

A Entirely, sir. I do not think there is a possible chance

of that man at Homburg making any money by taking his truck and going into that Rocky Mountain House and picking up his requirements because as I say, the average dealer in business and in the towns is only interested in that town, about the only place he goes to outside of his own town is the big centre. He does not as a rule have any business to do at a smaller town adjacent but for the farmer it is different.

There are a couple of pages here I can finish up with this 23. We are on Page 23 of Volume 2 and I think I could go through this because it has a bearing on that information relative to the trucking operations.

As an illustration, if we had all the business at Camrose and Red Deer, we would have to deliver approximately 400,000 gallons each year to the farmer in each of these districts in small quantities of 1 to 2 or 3 drum lots: providing always that deliveries could be made at our convenience during the rush season of the year.

Now allowing 165 days for Sundays, holidays and impassable roads, giving us 200 working days with an average of 20 miles for a round trip and 2 hours to each trip, we would require 4 trips per day on farm deliveries alone, which would require two trucks.

In other words, I want to give you this because I have mentioned the number of trucks which we would have to operate. I might say this information I have given you here has been compiled by our transportation department after we had our Superintendent spend two months

in the Prairie Provinces going into the trucking costs and conditions under which we have to operate here, so we show there:

Impassable roads, 126 Days, half of November, December, January, February, March, and a few wet days. Sundays 31 days, holidays 8 days, which makes a total of 165 days out of the 365. That has to come out of the picture. The total farmer gallonage is 400,000 gallons; the gallons per trip would average 240 gallons; the average mileage per trip would average 20; the average time per trip would be two hours; the number of trips per day would be 4; the gallons per day would be 960; the total number of working days 200; the total yearly mileage 16,000 miles and the total yearly gallonage delivered would be 192,000 gallons and we estimate the number of trucks required for that would be two.

Based on the above it would not be possible for two trucks on farm work to deliver much more than 49,920 gallons per month in a month of 26 working days. Therefore, additional trucks will be necessary.

Checking this against deliveries, we are positive that during the peak season, customers would have to take their supplies at their convenience, even if we operated four trucks and provided two additional truck drivers to provide for the eight-hour working day legislation.

Now I mention that because as the agent, he is running his own business and if he works 16 hours a day that is his business but when it comes to

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our operations we have to abide by regulations and our maximum working hours for that man is 18 hours.

Q MR. FRAWLEY: I think the record will be wrong because when you read the second line you read it "customers would have to take their supplies at their convenience"?

A Supplies at our convenience, that means our delivery convenience.

As a further illustration, if we had all the business at Leduc and Wainwright, we would have to deliver a gallonage slightly in excess of 200,000 gallons annually, of which 50%, or 100,000 gallons, would be delivered to the farmers in small quantities, and one truck could not possibly give service on this gallonage to farmers, as well as take care of over 100,000 gallons of dealer business. Consequently, two trucks would be an absolute necessity in order to deliver this total offering, providing deliveries were made at our convenience, and while these two trucks could deliver up to 375,000 gallons as an outside maximum, the two trucks must be maintained in order to meet the requirements, since the maximum ability of one truck is 175,000 to 190,000 gallons annually, which would not handle the offering at these points.

Consider further, Strathmore with a total offering of 400,000 gallons, and Wetaskiwin with a total offering of 600,000 gallons.

In the case of Strathmore, three trucks would be necessary to handle this gallonage, and in the case of Wetaskiwin, four trucks would be necessary.

We feel that these examples will fully demonstrate that a point with a gallonage in the neighborhood of 200,000 will be more costly to operate on an exclusive franchise. A medium point of 400,000 will be about even, with the cost reducing very negligibly on 600,000 to 800,000 gallon points, but note that points with such a large total offering are, of course, very much in the minority.

You have heard our views based on actual experience. I would now like to quote National Petroleum News, 1936, and I will read that extract from the National Petroleum News, Special Edition, February 5, 1936 re Canada. "Equally important to Canada "is the service rendered by the oil industry to its wheat "farmers in the Prairie provinces of Western Canada. Here "too the shortness of the season handicaps operations. "When it is time to cut wheat it must be cut without delay. "When threshing time comes the threshing must be done. "Failure to act in time may result in loss or degradation "of the crop by early snows.

" When threshing begins in "Western Canada it is always a race against time to com- "plete the work before it is interrupted by rain, sleet, "frost and snow.

" Because of this necessity "for speed the oil companies have built storage and de- "livery systems capable of taking care of the peak demand "for oil, tractor fuel and gasoline without delay. Long "before the season begins the oil companies start building "storage to take care of the 82,000 tractors. The tank

"trucks are ready to hurry the fuel to the farmer at the "proper instant so that he can win his race with the "weather.

" It is needless to point out "that the industry has an investment in bulk plants and "tank trucks in the Prairie provinces far in excess of "what would be necessary in a normal community where demand "is spread more or less evenly over the year, where the "bulk of the gallonage is not delivered in two months.

" In the United States there "are several times as many service stations as there are "bulk plants. In the Canadian Prairie provinces there "are 1982 bulk plants owned by oil companies, as compared "with 450 service stations owned by these companies. Other "interests such as farm co-operatives have 275 bulk plants "in the provinces. The 2257 bulk plants distribute about "40,000,000 gallons of tractor fuel to the farm trade "yearly."

Q MR. HARVIE: Do you want to deal with this Graph 21 at the moment?

A I was going to.

THE CHAIRMAN: Did you say something, Mr. Macleod,

MR. MACLEOD: I was going to call attention to a question asked by Commissioner Lipsett yesterday which was incorrectly answered. He asked sith regard to the name under which the Texas Company sold its standard or Q brand of gasoline and the reply given was "Texaco". As a matter of fact it is "Fire Chief" and it has been sold as "Fire Chief" for about seven years.

THE CHAIRMAN: That is your standard?

MR. MACLEOD: Yes, the first number of years, I do not know how many, it was non-leaded, but latterly it has been leaded.

THE CHAIRMAN: And what is yours that corresponds, the Texas Company standard is called "Fire Chief"?

MR. MACLEOD: Yes, and that corresponds to Three Star and Nevr-Nox, is it, Mr. Miller?

MR. MILLER: That is right.

MR. MACLEOD: Up until a few months ago our premium gas was Texas Ethyl and a few months ago in this Province a new premium gasoline was introduced under the name of "Sky Chief".

THE CHAIRMAN: One is "Fire Chief" and the other is "Sky Chief."?

MR. MACLEOD: Yes,

MAJOR LIPSETT: The Fire Chief is the Ethyl?

MR. MACLEOD: It is an Ethyl gasoline, and on page 10,919, Mr. Commissioner Lipsett, in dealing with the dumping question asked this, does it depend entirely upon cost. Of course that is a question of law and an interpretation of the act and it does not in any way depend upon cost. We buy gasoline in Montana. It does not enter into the question of dumping duty whether it costs much or little to refine. The only qestion is whether we buy it at less than it is sold in Montana under comparable contracts, that is we get a price in Montana because we take a certain quantity or we buy at a certain stage between manufacturer and retailer, then "does anybody else buying under

the same, at the same stage in Montana, pay as much".

MAJOR LIPSETT: It depends on the selling price in the States and not on the cost of manufacturing.

MR. MACLEOD: Yes, under comparable contracts of course, and if we pay less than the domestic purchaser of the same class pays then we have to contribute to the Dominion Government the difference as a dumping duty.

THE CHAIRMAN: How long do you expect to take to finish your volume?

A WITNESS: This volume here?

Q THE CHAIRMAN: Yes?

A About five minutes will finish it all, five or ten minutes and in that connection I am not going to trouble you with these other graphs except to explain one, because I thought they would be interesting to the experts. I think it is valuable information so I will deal with one, Statement no. 21.

THE CHAIRMAN: Please understand we are not hurrying you with this. It was just whether we would go over until the morning?

A If I can explain the one that would be all that is necessary,

THE CHAIRMAN: I would rather proceed in the morning, rather than have you hurry now.

MR. HARVIE: It was the intention just to explain one.

A Statement No. 21 shows the estimated monthly deliveries at six type agencies, based on one company having a 100% exclusive franchise of the business at the agency and adjacent territory.

This statement is based on the estimated potential of the agency town and immediate vicinity with the farm deliveries estimated on a percentage basis arrived at on the basis of British American experience.

Now we will turn to Graph No. 21 and we come to Leduc, which is right behind Statement No. 21, has an estimated monthly delivery based on 100% franchise, we have made that up covering----

THE CHAIRMAN: Where is that?

A 21 in Volume 2, that shows the estimated monthly deliveries based on us having 100% of the business at Leduc, Strathmore, Wainwright, Red Deer, Camrose and Wetaskiwin, and they are illustrated in the Graph starting with 21 to the end, the last one in the book being Wetaskiwin. I think if we turn maybe to just take one illustration, take Red Deer in gallons, I might say there are two there, one showing in terms of 100 in Red Deer, the same as the other points and the one shows Red Deer shown in gallons. The one is in terms of 100 and the other is in actual gallons. Now the one where we show 100% franchise Red Deer is shown in gallons. We show there from January to December, 1938, and the black line has the total deliveries, in other words, it comes to a total of 758,580 gallons. It shows in the month of January that we would have to deliver 23,710 gallons, which is 100%, then February it increases on up, 26,300 in February, 46,000 in March, these are round figures, 60,000 in April, 74,000 in May, 91,000 in June, 91,000 in July, 71,000 in August, 81,000 in September, 125,000 in October, 40,000 in November and 25,000 in December. On the opposite

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to that is the estimated farm delivery in gallons, starting off with 100 and we show that there is 758,580 gallons in the total, of which 378,500 gallons is delivered to the farmers as shown on that statement. We put these points in there under Graph 21 as an illustration to show the amount of gallonage which we must deliver each month according to the requirements throughout the year and it is all expressed there in gallons. I thought that was necessary because there is a lot of truck equipment requirement and there is quite a big expense in that operation, regardless of whether we deliver it or anybody else, and in putting that in Graph form it shows the peaks that we have to contend with over that short period, particularly those four months in the year, that is, if our business was gradual or constant over the twelve months' period why 25% or more of our difficulties would be eliminated. It is this constant picture that we get to in a very short period, taxes the entire operation and notwithstanding the fact that we like to have it, we would rather have it than not have it, the trouble is that we make provisions for it and some years we do not get it and that changes our cost. That is all I have on that.

THE CHAIRMAN: We will then adjourn.

(The inquiry was here adjourned to be resumed at 10:30 A.M. July 12th, 1939.)

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 12 th, 1939

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ALFRED HERBERT MILLER,

having been recalled.

MAJOR LIPSETT: Mr. Miller, before you start, there are two things that I would be glad if you would deal with before you finish, not necessarily now?

A Yes.

Q The first one may be one with which you may or may not have anything to do but we are asked to report as to whether the Government should take over the whole distribution in the Province and you have dealt with the present marketing situation and you have dealt with the exclusive franchises in various zones, I would be glad if you would deal some time before you finish with the question, the other alternative indicated in the Commission, as to whether the Government should take over the entire distribution, something on the basis of the Liquor Vendors for instance, and in that way, reduce the number of distributing stations throughout the Province; the second matter I would like if you would tell us something about also and that is the effect on the ordinary garage throughout the country of the larger companies taking on not only the distribution of gasoline but the matters that have been dealt with up-to-date, largely by the garages, that is the sale of tires and other fittings and lubrication and washing and which is more or less garage work, I would like to get for the record your views and anything you have to say on those two points?

A All right, sir.

Q MR. HARVIE: Mr. Miller, yesterday there was a request made to file some additional information in connection with the break-down of the cost, etc., in con-

nection with the 21 points named and dealt with and with your permission, Mr. Chairman, we have prepared this information in a form that we can just add to Exhibit "2" in its logical place possibly.

THE CHAIRMAN: Exhibit "2"?

MR. HARVIE: Volume 2 I should say, statement 17 now contains pages 1 to 21 and we have added this additional information in pages 22 to 33 and it could be put in there.

Q THE CHAIRMAN: Volume 1 you say?

A Volume 2, sir.

Q We will put that in where?

A It goes right behind those 21 points and we will insert these.

Q That will just be part of Exhibit "443", then?

A That is right, sir. Do you want me to make an explanation of that?

MR. HARVIE: Yes if you please.

A In addition to the information you asked for, Mr. Frawley, we have added pages 22, 23, 24, 25. That covers the information as shown under statement No. 17 covering the various companies operating at those 21 points together with their equipment and capacity.

Then you asked for a breakdown of the estimated fixed charges on the present set-up and that is on page 26. We give you the sales, percentage of branch expense , the taxes, depreciation and the total.

On page 27 we give you the sales, the branch expense, the taxes, depreciation and the additional salaried branch expenses under company salaried

operation or the exclusive franchise basis.

On page number 28 on the present set-up we show depreciation, the plant, the tanks, the drums, together with the total.

On page 29 we give you the same information covering depreciation, plant, tanks, drums and the total on the salaried basis company operation, exclusive franchise.

On page number 30 we give you the interest on investment, on plant, tanks, drums, together with a total and the 5% on the investment, that is on the present set-up.

On a proposed company operated exclusive franchise basis we give you the same information on page 31, trucks, plant, tanks, drums, total, 5% on investment.

On page 32 we give you the estimated saving under the present set-up of discontinued farm deliveries at these agencies as shown on there.

On page 33 , which is the last page, the estimated savings on the proposed set-up of discontinued farm deliveries at those same points;

In other words the list of agency points on every sheet covers those as discussed in the statement 17 on an agency basis, that is the old basis and the proposed exclusive franchise basis.

Q MAJOR LIPSETT: That works out, Mr. Miller, does it, that you would have a saving over your marketing of .7285 cents per gallon, over your whole market, if the farmers' free delivery was cut out?

A Yes, when we pay 2¼ cents. On the 2 cents we will be a

quarter of a cent less.

Q THE CHAIRMAN: A saving of what did you say, a saving on----

A It shows on page number 32 "Note, a saving of 1.25 cents per gallon on farm delivery gallonage would mean $13,246.05 or an average of .7285 cents per gallon on total present business through the above agencies", that is the agencies as listed on that page number 32 but now that we are on the 2 cent basis it means that there is a quarter of a cent less than that figure shown.

Q Does that mean to say just at those points on sheet 32----

A That is right.

Q Only?

A That is right, which is representative of the whole but these were the only points which we were dealing with under Statement No. 17.

Q On the basis of the 2 cents and the discontinuance of free delivery there would be a saving of approximately 1/2 a cent a gallon over your whole business, is that right?

A That is right, sir.

Q MR. FRAWLEY: Do I understand, Mr. Chairman, this is going in just as if it were part of the Exhibit?

THE CHAIRMAN: Part of Exhibit "443", inserting it at the point indicated by Mr. Miller.

Q THE CHAIRMAN: What saving did you tell me would be effective, just so that I may have the both at the same point, Mr. Miller, on drums?

A It works out on the statement that we submitted, Mr.

Chairman, .24 cents per gallon.

Q .24?

A That is correct, sir.

Q That is on the basis of your having nothing to do with drums at all?

A Yes, providing we have no drums of any kind.

Q MAJOR LIPSETT: Then what would the saving be then, on the total gallonage of this reduction of commission from 2¼ cents to 2 cents?

A Well the only difference, Mr. Commissioner, is we formerly paid 2¼ cents for farmer delivery, that is commission and cartage, on farm sales rather. The same amount was paid on sales to dealers, which were made to dealers rather at adjacent points to the agency or branch; that has been reduced now to 2 cents as I said yesterday if free deliveries were discontinued, based on 50% of the business now being farm business, the saving would be 1/2 cent per gallon on the total of the sales made.

Q MR. FRAWLEY: Have you ever analysed your records to see what percentage, to find out what percentage of farm sales are made at the warehouse and what percentage on the farm?

A I gave you that, Mr. Frawley, in the book of graphs, page 16, that is according to our agents' deliveries which were made.

Q Graph 16?

A That is the one you have there.

Q That is the questionnaire?

A Yes, in the recapitulation.

MR. HARVIE: Page 7 I think it is.

Q MR. FRAWLEY: Would you mind looking at this, have you a copy?

A No I have not.

Q You might look at this one?

A We show the total sales and them they show their country deliveries and then they show their percentage of the country deliveries compared to the total.

Q Country deliveries are what they deliver themselves to the farm?

A That is not all farm, Mr. Frawley, they show it as country deliveries, that is a figure combining farm sales and sales to dealers in the country.

Q Outside of the point?

A Adjacent to the agency point, but I would still estimate the percentage of farm business as a total approximately 50%.

Q You would estimate about 50% of the farm business, eliminating the dealer business altogether?

A No, 50% of the total consumption in the Province is what we would term "farm business".

Q That is what I had in mind yesterday, but what I have in mind now is something different, it may be here I do not know, but eliminating the dealer business altogether and only thinking of the farmer business, that 50% farmer business, about how much of that would be delivered on the farm and how much delivery taken at the warehouse, that is what I had in my mind?

A Well that is a figure we cannot give you, Mr. Frawley, because we do not know how many farmers are coming to the warehouses on which the agent is allowing the farmer

part of his commission to take it out instead of the agent himself taking it out.

Q This private arrangement which you say is going on?

A Yes.

Q If we cannot get it we cannot get it but it occurred to me the Commission might be interested in knowing that, because I am told now that a lot of farmers have trailers, either trailers on their cars or small trucks, almost every farmer has one, and he goes in and gets his gasoline and oil distillate?

A It has been increasing and as I said yesterday it will still increase providing distribution is wide enough.

Q Anyway you have nothing at the moment on that?

A No sir.

Q MAJOR LIPSETT: Mr. Miller, I am sorry, I do not think I quite followed what you were telling me about this saving on the reduction from the 2¼ to 2 cents, we have a saving of approximately 1/2 a cent a gallon by eliminating free delivery to farmers and approximately .24 on eliminating drums, now is that the only saving which would be made by the reduction of from 2¼ cents to 2 cents or is there a reduction on the other business in the agent's commission, at present he gets 2¼ cents on everything?

A No sir, he gets 1 cent on sales to dealers at agency points and 2 cents on sales to dealers or farmers outside of the point.

Q That is on the new set-up?

A Yes.

Q Distinct from the present 2¼ cents?

A Yes.

Q Well now will there not be a saving of a quarter of a cent on sales to dealers outside the agency point?

A There would be if we operated on the old basis but that one quarter of a cent would simply be saved from reducing the agent's commission from $2\frac{1}{4}$ cents to 2 cents; under this new distribution where we make delivery ourselves from the branch to the dealer or distributor at adjacent points it is difficult at this time to estimate that, Mr. Commissioner, because this is the way that will probably work; we will say that we had before an agency point known as "A", where the price, or rather where the freight to that point was 2 cents a gallon; north of that point, 15 miles, we may have had another, we did have another, agency where the freight rate to that point was possibly 2.15 cents per gallon; in other words 15/100 of a cent greater than the point "A". Now we have eliminated that plant on the railway track so in future we will not ship any more tank cars by railway to that point. Instead we will be making delivery to that point, that is point "B" with our own company operated trucks and as to whether that will cost us more or less than the railway rate formerly paid is the difference between "A" and "B", which is 15/100 of a cent or less, that we cannot determine at this time. If it costs us more then there will not be any saving.

Q And against any saving I suppose you have the additional capital outlay for the truck or equipment to make that delivery?

A Yes.

Q You eliminate the railway storage point "B" but instead of

that you have to have the equipment, truck or whatever it is, to take it from "A" to "B"?

A Our capital outlay on the change of distribution will run approximately $2,000,000 of a minimum.

Q And you do not see then any further saving out of that quarter of a cent beyond what you have already told us?

A No sir,

but what you do see is a better service to the community and a saving to the producer, the farmer, that is by making the distance shorter for him to come in there and pick up his requirements when they cannot be delivered, that is some consideration to him, because if he is a farmer and had to come 15 to 20 or 25 miles, it is a definite saving to him now if he only has to come 5 or 8 miles.

Q You think it would give him more efficient distribution but you do not anticipate any further economies?

A No sir.

Q MR. HARVIE: Mr. Miller, you have been using a figure of a cent or a cent and a quarter as the cost of delivering to farmers, now that was on the basis that approximately 50% of your total gallonage is sold to that market, to the farmer, and the suggestion has been made that these farmers or some of them are now coming and taking delivery at your warehouse, just assume with me that possibly one-half of them might do that, what effect would that have on the cost of delivery to the remaining half?

A I do not think it changes the effect at all.

Q Would it increase the cost of the delivery of the remaining gallonage to farmers if you only had half the delivery to

make?

A It will definitely cost, as I said yesterday, due to the fact that the farmer is taking smaller quantities either for financial reasons or because he is not using as much as he used to use, it is becoming more costly, whether it is the agent or whether it is the company that makes the delivery, it is becoming more costly for them to do it than it has been heretofore because of the smaller purchases of the farmer; in other words you have to cover the mileage, you make the same mileage rather and you take out half the quantity or less.

Q And your depreciation and other mileage charges would have to be added to the deliveries of one-half the quantity?

A Yes, quite so.

Q So then if the practice developed where 50% of the farm deliveries are taken by the farmer, that would not mean that there would be 50% of that cent saved?

A Definitely not, due to increased costs.

THE CHAIRMAN: Well I suppose we will probably hear from some farmer or farmers but how do you figure, I can quite see the saving feature, but how do you figure this effects the farmer's operation, would it be such a grave inconvenience to him as to seriously embarrass the farming industry if free deliveries were eliminated entirely, you see what I mean?

A Yes.

Q I am trying to ask you to see the farmers' side of it?

A Well I cannot say, Mr. Chairman, that the farmer will be inconvenienced or his cost of doing business will be increased and when I say his cost of doing business, I mean including his losses, which would be a cost, I said the

other day if the farmer cannot secure his requirements immediately they are required in the harvest season, if he is delayed and bad weather arrived, he is going to suffer losses by degradation and under the existing or the old type of distribution if free deliveries were eliminated I think that that would cost him, as I outlined in this statement, in Volume 2, more money; in other words it would pay him to, if necessary pay a delivery charge of another cent or a cent and a half a gallon and he would be further ahead to get those goods immediately they are required, but if you have wide enough distribution, instead of having as shown here 1049 points in the Province, there will possibly be 2,000 or 2,500 distributing points in the Province, where the farmer can buy his requirements wholesale, then I do not think that he is going to be embarrassed or inconvenienced or suffer loss if free delivery is cut off.

(Go to number 11,050)

A. H. Miller

Q THE CHAIRMAN: Now, that is on the assumption, I suppose, that if other companies remain in the field in competition with you, they will adopt that more economical method of delivery, too?

A I think so, Sir. I noticed today, since we commenced there are experiments being made by other companies in Western Canada, although there has been no definite policy decided on. But I do know other companies are experimenting and trying out the new form of distribution that we are now operating under.

MR. FRAWLEY: Excepting the railways come in in the next two or three weeks with a radical reduction in freight rates on refined products, which might be a deterrent to the Imperial say going into your method, your system?

A Well, I do not know. We considered that angle before we decided to change our old to our new. And we still will ship to our main branches by rail so long as the rate is low enough. If it is not low enough, we will find other ways to ship. But I think regardless of what reductions are made in the rail rates, it has no bearing as to the efficiency or cost of doing business under the new form of distribution as against the old.

Q You say, getting away from the tank farm down by the railway tracks, and bringing it up closer to the community, and introducing retail facilities in addition to the wholesale, you say that in itself is a better marketing system, and more economical, and I presume therefore that would be reflected in the price?

A It is the proper modern method of distribution as far as

our experience shows.

Q Now, let me put it this way. Suppose that you need 6¢ to operate as you have been doing up to this year, or any figure, X cents, as a fair marketing spread to pay all your expenses and give you a fair return, you need X cents, Might the Commission take it you went into this scheme with the idea of being able to get along with something less than X cents with your new system from your previous operation?

A As I said, Mr. Frawley, last week, we do not know exactly what saving can be made. It would not be fair for me to try and make a statement to that effect. Because in the first place we have not had one year of operation yet. We are still in the transition period. We are still changing over. We may be out of line on our truck costs; or the depreciation on the road equipment, which is a big factor in this new scheme of distribution, might be greater than we expect. There are so many items that go into that, that it is impossible for me to say what saving may be made, but we do know, we are satisfied it cannot be higher, and at the same time it is more advantageous to the consumer, inasmuch as it is more efficient.

Q You were good enough to say, or frank enough to say, some days ago, that one of the reasons that lead you to go into or decided you to go into this new marketing system was some urge you had received from the Alberta Government?

A Quite right.

Q And I presume if it is a success, the Alberta Government will want to take a portion of the credit from you.

A.H. Miller

Be that as it may, I think it is fair to say the urge of the Government wanting you to go into a more economical system of marketing was that that would benefit the consumer, and they were not concerned with your profit position. They would expect you to look after that yourself. It was in the Government mind in making this representation to you or suggesting that you might evolve a more efficient marketing system, that the advantage to the consumer was uppermost in their minds, of course?

A Well, Mr. Frawley, we have tried to set up what we term an efficient distribution and most economical operation, and as I see the picture of the future, if we have to cut further, the next cuts that are going to be made are pay-rolls and the number of people on those pay-rolls. In other words, as we said the other day, we centralized our marketing and accounting facilities in Western Canada at Regina, taking care of the three western provinces. Formerly, we operated with five individual units which were known as five separate divisions. As I see the picture, and I think we will be able to convince you further of that when Mr. Bronsden presents some further statistical information to you, as I see it, if we have to make any further reductions, it has got to come out of labor, pay-rolls. As you reduce pay-rolls, so you reduce your buying power. If you lay people off, you know where they go to. If they do not get another job any other place you are going to increase your relief, as I see the thing.

Q The only people you have on the pay-roll are your

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administrative officers or your accounting staff. Your administrative officers in Regina and in Calgary and in Edmonton, is that not so?

A I think we would have to look at the pay-rolls in general, in the terms of the industry and not individually.

Q I am not quarrelling with you about it at all. But you say you will have to make some cuts in pay-rolls, and the great bulk of your marketing system is not made on pay-rolls, that is commission?

A It does not matter of make any difference whether it is commission or salary. It is all pay-roll.

Q I want to understand this. What you mean is the next cuts will have to be in eliminating commissions or cutting down commissions, is that what you mean?

A Cutting all pay-rolls.

Q Cutting all pay-rolls, including commission, for the purpose of your answer as pay-roll?

A Cutting many things. Cutting out taxation where we can, and cutting costs that will go beyond the point of operating efficiently and with economy. That is my own personal view as I see the picture as it stands today.

Q Just like so many things, it is perhaps idle to be conjecturing about it. But I am just wondering about this new marketing departure of yours. It is either going to be a success or a failure. If it is a success, it is going to be either a success to your company in greater profits or a success to the consumer in greater savings passed on to him in a reduction in price. I mean, by a process of elimination, we can get it down to what it will result in.

MR. HARVIE: Or better service?

Q MR. FRAWLEY: Or better servise at no change in cost?

A Quite right.

Q Would you mind exploring that? Let us examine all the possibilities you see. One result might be you would save money and make more money for your shareholders and as I see it there is no crime in that?

A I did not say so. I said I did not know what saving, if any, we would make.

Q But I am putting it to you on the basis that there will be a saving which will be reflected either in a reduction in price or an increase in your profits. Now, either one of them is a perfectly legitimate objective. Now Mr. Harvie suggests a third one. Either a reduction in the price which the consumer pays; or leaving the price as it is and greater profits to your company; or no greater profits but greater service to the consumer?

A I think the best answer I can give, Mr. Frawley, to that is this, or explain it as I see it. If there is a small saving, all well and good. Then if there is not, I think there will have to be an increase in the price and not a decrease. But as I said, our figures that are coming after I go through that Volume Number 3, from Mr. Bronsden, will give you further information in that regard.

Q Well, I will wait till Mr. Bronsden is through?

Q MR. HARVIE: There is one point that occurred to me, that is, possibly some of the reasons back of this change in the marketing system, I get it from your evidence, that the trend is that the farmer trade

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which is now 50% of your total business, is on the decline as compared with your dealer trade?

A Right.

THE CHAIRMAN: Mr. Harvie, does it appear it was on the decline in the province or merely that this company's position was changed?

Q MR. HARVIE: What would be your view on that?

A That decline in farm consumption is general throughout the West, of the total consumption.

Q Not only your company?

A As I said the other day, at one time, farm consumption in Western Canada was 85% of the total. Today it is approximately 50% of the total.

Q THE CHAIRMAN: Is it going down or is the other consumption going up?

A The consumption in the West - I am just giving you this from memory because there are only ten years' statistics available - I think in 1928, the consumption in Western Canada, in the three Prairie Provinces, was approximately 200,000,000 gallons. In 1929, I think it was at the peak year, that was the year when Saskatchewan sold 75,000,000 gallons of gasoline in the one year - I think it was that year approximately 222,000,000 gallons. That consumption from 1930 to date has gone down to a low, I think of 148,000,000 gallons, or 142,000,000 gallons in the West, and in 1938 it came back to somewhere between 1928 and 1929 figures, being approximately I think 213,000,000 gallons. So the total consumption is less today in Western Canada than it was 10 years ago, and the farm consumption of the

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total is 50% approximately.

Q MR. HARVIE: As against.........?

A 85% in I would say 1922, 1923, and so forth.

Q And I believe your evidence is you expect that market to decrease to about 25% of the total?

A We do. We cannot see........ It is as clear as daylight to us that the car, the truck, bus and aeroplane consumption will increase, and the farm consumption is going to decrease, due, we feel, to smaller operations and the more economical type of tractor. In other words, I do not expect to see any different picture in the next ten years than we have had in the last ten years, as far as cycles, weather conditions and crop production and consequent consumption is concerned. It will fluctuate in the next ten years just as it has in the last ten. It will have its ups and downs?

Q And that was one picture you had in mind when you decided to make this change in your distribution system, and as I understand the general trend is that not only are farmers buying less, but they are buying in much less quantities, for farmers.

A Quite true.

Q Whereas they used to buy maybe several barrels, they are down now to a smaller number of barrels or possibly fractions of barrels, or soon will be?

A That is quite true.

Q And that being the case, forgetting your new distribution system, but taking the old distribution system, what effect would that trend have on the cost of distributing gasoline

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for that trade under your old bulk station system?

A You mean the farm trade?

Q Yes?

A It is going to increase the cost. As I said yesterday, it is uneconomical to do, and has been for a year or so, two or three years, for our agents or for our company or anyone else to make delivery to the country because of the small quantities that are purchased at one time by the farmer and the mileage we have to cover to make those deliveries. That questionnaire came from over 200 of our agents in the Province of Alberta, and that indicates that quite clearly.

Q Now, your new system is being developed having that trend in mind?

A Yes.

Q Is it your view or not that you will be able to meet the new farmers' requirements, that is, for delivery in smaller quantities, more economically through your new system than you could through your old bulk station system?

A I would say so, Mr. Harvie, yes. It will be more economical as far as the farmer is concerned. There will be service there that the farmer cannot get today under the old basis. As I said under our bulk plant, a farmer comes in for his requirements and the first thing he has to do is to hunt up the man to give it to him, the agent. And I am speaking now from actual experience. I know that there are farmers who have come in to agency points in Western Canada and have waited as long as three or four hours to get a barrel or two barrels of gasoline to take back to their farms, because the agent was out of town, or was some other place.

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He is not available anyway to give that service. And that is why possibly the number of farmers coming into town for their requirements has not increased to the extent I think it will in the future. The inconvenience. A man comes in to town and many of our bulk plants in Western Canada have been located anywhere from half a mile to possibly a mile at least, and this is conservative, from the town itself, that is, from the center of the town, there on the railway property, and the railway to cover their own requirements always used to locate the oil companies in the worst possible location on the siding of the railway, and the furthest location out of town. In other words, the elevators, and then the stock yards, and everything else, and we came next, and that was generally last, and in the worst position.

Q MR. COMMISSIONER LIPSETT: I suppose that was largely on account of the fire risk?

A That is what they said, but at the same time, there have been very few fires.

Q MR. HARVIE: Would I be correct in possibly summarizing the situation by saying if the old system continues of distribution, and the farmers continued the trend of buying in smaller quantities that the costs would necessarily have to be increased, whereas there is a possibility under the new system you are adopting of possibly maintaining the present costs?

A Yes. I would say so.

Q MR. FRAWLEY: Of course, I am not being critical of your new system at all, but in the Stettler district that we have been talking about, I find exactly

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the same number of dealer-distributors as you had under the old system of agencies, precisely the same?

A Yes, that is right.

Q You may say "Well, that is all right, Mr. Frawley for two or three months, but we will have a lot more in there later." But taking it "as is" today, you have now the same number of places there at which your goods are available to the farmer that you had under the old system. They are Donalda, Castor, Mirror and Alliance, I think four. The same four you had originally. That is exactly the same amount of expense if the farmers sit down and demand delivery, they go out and the deliveries are made from the same points probably to the same farmer. So I do not just see where there is any advantage there in economy, in cutting costs?

A I thought I made that quite clear to you, Mr. Frawley, when you discussed that the other day, that particular Stettler zone. I said that the first objective we had in mind, the first objective rather we had to make, which is only natural, was to convert our old type of distribution to the new type of distribution. That is the first thing. That is only natural for us to do.

Q Yes?

A After the old type of distribution has been converted to the new type, and in some cases, simultaneously with that change we have added and will add new points, which as I said at the end of 1939 might be 500 points in the Province of Alberta as against 212 in 1938, and at the end of 1940, it might be 1,000.

Q I want to put that before the Commission. Then we take

the map which appears in Exhibit "442" and looking into those zones, as you call them, wherever we find you have no greater number of dealer-distributors than you formerly had agents, today, then virtually the same amount of service continues and the same amount of costs continue. But wherever you find any greater number of dealer-distributors than you formerly had agents, that you say is a step in the direction of cutting costs and giving the farmer better service?

A It would give the farmer better service today, even if we had not increased the points to the extent of one.

Q How?

A Because those points we formerly had on the track are now located right in town.

Q Oh, yes?

A In other words, there is no delay in the service. There is a man there to serve them continuously because it is a combination operation.

Q I wondered about that. You say that that was a serious matter, and that just moving the point up town to one of the local dealers and turning him into a wholesale and a retail outlet.......?

A Not one of the local dealers. We move the place up-town onto our own property. It is our own property and our own equipment.

Q MR. HARVIE: Adjoining your local dealer?

A Adjoining the dealer.

Q MR. FRAWLEY: Well, we need not elaborate that. You go to the local dealer and you enlarge his property and make that investment. And you say that alone

is an improvement in the service?

A Definitely, yes.

Q And that improvement, you say, is because formerly a farmer would go into town and find your agent out about his implement business or something else, whereas now you think he can find your new dealer-distributor on duty all day long?

A That did not apply only to us. There are many points where there are two or three others and farmers have gone into those same points and have not been able to find one agent in the town at the time he got there, notwithstanding the fact that due to his delay he might have gone from one company to another that he did not intend to buy from. And he could not find one of them in that town.

Q MR. COMMISSIONER LIPSETT: How exactly did this system of giving free delivery to the farmers grow up? Was there any special principle behind it as to why a farmer could get delivery as against some other industry that was perhaps in distress?

A It was a competitive condition, Mr. Commissioner. As I say, we will take 1923 to 1925, no free deliveries were made. We will say up until 1923 anyway, there were no deliveries made. Everything was sold f. o. b. the warehouse. That was due to the lack of roads that we have today and therefore when the farmer came in he took his requirements back with him. Then there was a charge made. The companies decided to put on their own truck at some spots. Not at all points. But they decided to make deliveries to the country on a mileage basis charge. Up to five miles, I think it was at the start a man paid 1¢ a gallon. And then ten miles

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he paid an additional amount, possibly 1½¢ a gallon, and fifteen miles he would make another charge of 2¢ per gallon, and I think it went to a maximum of anything further than 20 miles of 3¢ per gallon. That carried on for a few years and then competition again brought about the question of how mush less some people could do it for than others, and that brought about finally free delivery, and free delivery has been in effect ever since.

Q Approximately at what period was that ultimate result reached?

A I would say free delivery - this is only from memory - that free delivery was instituted about nine years ago, nine or ten years ago.

Q THE CHAIRMAN: We have heard with interest your views of how Governments generally have provided mounting taxation where there was a decrease in the cost of gasoline. That of course is passed on to the consumer, is it not?

A Yes, Sir.

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Q What have you to say about taxation in respect to the industry as such?

A If you would not mind, Mr. Chairman, Mr. Bronsdon is preparing a statement that I think will interest you very much on that and therefore, I think it would be a duplication.

Q Very good, there is no need of dealing with it now then?

A No, sir.

Q This seems to me, this 7 cents for example, we have been discussing, it seems to me something about which you might complain in the way that it makes it appear to the consumer that you are getting more than you are in fact getting, but it is the consumer that pays that tax and I wondered if the industry or any members felt there was undue taxation directed at that industry as such, taxes that the consumer does not pay, and you say that will be dealt with by Mr. Bronsdon?

A I will say this, sir, that that is the general feeling of the industry, that there has been too much taxation placed upon the one particular industry, that is that particular industry is carrying too much of a load of the taxation necessary to carry on the business of the government.

Q And we will hear about that from Mr. Bronsdon?

A Yes.

Q MAJOR LIPSETT: How exactly is this 7 cents collected, Mr. Miller?

A When we make delivery to a dealer or consumer, we collect that tax on the invoice at the time that delivery is made; in other words, if we deliver 100 gallons of gasoline we

show the 100 gallons of gasoline and extend the price and below that we put "tax collected" at 7 cents, $7.00, and then we turn that back to the Government every month. We issue a cheque to the Government for the amount and the Government audits us to check and see that it corresponds with the amount collected.

Q MR. FRAWLEY: And they pay you something for that?

A They allow us a small rate for the collection, very small.

Q How much did it amount to gross, in your company last year?

A I have no idea.

MR. HARVIE: The tax or the commissions?

Q MR. FRAWLEY: It is on a percent basis, it is a percent?

A Yes.

Q Mr. Cottle says he thinks it is a 5% collection fee you get, which he tells me is 1/3rd of a cent per gallon?

A I will have to give you that after lunch. It is in my other book.

Q MAJOR LIPSETT: Under the system, Mr. Miller, the oil companies, they take no risk of bad debts in that, if you have an agent that does not pay, do you bear that loss?

A Of the taxes?

Q Yes.

A In some provinces we are allowed a refund of a percentage, I think it is, at least of the bad debts which are incurred, that is as far as the tax is concerned.

Q Does that apply in this Province?

A   I am afraid I will have to ask Mr. Bronsdon that, it does apply here.

Q   It does apply?

A   Yes.

MR. HARVIE: Yes.

Q   THE CHAIRMAN: You are collecting for the Government and you are paid a fee for making the collection and do I understand in no part you are held responsible for those who do not pay?

MR. HARVIE: I think maybe, Mr. Chairman, we might file a statement on that situation.

THE CHAIRMAN: Very well.

Q   MAJOR LIPSETT: Then subject to that, Mr. Harvie, we have this 5% and you are paid something every month; you have a certain amount of use of the money until the end of the month?

A   No, sir, that is paid monthly to the Government.

Q   That is what I mean?

A   Whether we collect or not we pay it; in other words, if we sold a man 100,000 gallons of gasoline with a 7 cent tax it would be paid to the Government at the end of the month although we did not collect for the gasoline for two months or three months; it is paid every month according to the actual invoice sales we make.

Q   MR. FRAWLEY: There have been some instances where the companies have had tho use of the money indefinitely?

MR. HARVIE: Not our company.

WITNESS: Not our company.

MR. FRAWLEY: No.

WITNESS: That is true. I know what you are referring to, Mr. Frawley, but not us.

Q MR. HARVIE: Mr. Miller, there is another point in connection with the Montana pooled freight rate question that I think you have some information on?

A I will submit later a wire that is coming to confirm more or less these facts on the phone conversation I have had with Montana, particularly, Mr. Frawley, in connection with the pooled freight rates which you mentioned; there are no pooled freight rates in the State of Montana according to the information given to me on the phone this morning that have any effect in any way on the refined products sold in the State of Montana; that pooled freight rate is really known as a "group rate" that the State of Montana receives and I remember the application for it too, it happened about a year ago, the State of Montana secured from the Railway Commission permitting them to ship their refined products further East into Minneapolis and other parts of Minnesota; in other words they gave them a special, what they call a "group rate" to move their products further East, particularly after they lost the crude that was formerly used for the supplying of the Alberta market; in other words, in order to get their crude out of there, they gave them a special rate to move it out which is known as a "group rate". Now in the State of Montana I am told this morning that there is what they call a competitive truck-rail rate within the State itself and that rate is very low. When I say

it is very low, it is lower than the rates we submitted yesterday on Exhibit "466" that we have in Ontario. I said that the price in Montana was 13 cents and as you have found since, according to the rate in the National Petroleum News, it is 13½ cents at one point in the State of Montana. I said it ranged from 13 cents to 14½ cents over the State as a whole. Therefore, due to their low trucking rates or competitive railway rates which are so much lower than they are here, you can readily see where the difference of 13 cents and 14½ cents is comprehended because that special trucking competitive rate runs out 270 miles. Now as an illustration, if our price at Calgary is 15½ cents net, and the railways establish a trucking competitive rate in the Province of Alberta that gave us a rate to Edmonton of a cent and a half instead of about 3 cents which it is today, then our price at Edmonton would be 17 cents. The same thing applies in the State of Montana. If it is 13 cents at Butte it might be 14½ cents 150 miles from Butte.

As a further illustration of that, we will take the new Ontario rail-truck competitive rate for 100 miles, in Ontario it is 1.20 cents per gallon, per Imperial gallon. Now it is reasonable to assume that with lower rates in Montana, competitive rates, lower than there are even in Ontario and on the Wine measure, their rates going out 100 miles would be less than 1 cent per gallon, which would make their price 14 cents.

Q MAJOR LIPSETT: That is against your 1.20 cents for 100 miles?

A It is just an approximate ---
Q In Ontario?
A Figuration, yes, it costs us in Ontario 1.20 now to ship gasoline 100 miles. It costs us in this Province or did cost us when we were refining at Coutts, 3.12 to ship from Coutts to Calgary.
Q Is that about 100 miles?
A No, sir, from Coutts to Calgary is, I suppose, about 240 miles.
MR. COTTLE: 197 I think.
WITNESS: Well all right, 197 or 200 miles.
Q MAJOR LIPSETT: You said 3.12, did you?
A Yes.
Q That is the 200 mile rate?
Q MR. FRAWLEY: What is the 100 mile rate in Ontario?
A 100 mile rate in Ontario today or will be rather, is 1.20 cents.
Q Well, take the same rate today which you are actually paying to get your stuff to Red Deer, it is 2.32 cents?
A Yes, there is a big difference, 1.3 cents per gallon; it is in our prices in Alberta, it is our cost over which we have no control.
Q That is why I say there is one price in Alberta, 16½ cents in Calgary.
Q MAJOR LIPSETT: Mr. Miller, you gave us the 100 mile Ontario rate at 1.20 and what did you say the Montana rate today was?

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A I said, sir, I didn't give you the exact figure on Montana but I said the rates in Montana, that is the competitive truck and rail rates are as low or lower than that rate for 100 miles in Ontario of 1.20 and as they deliver Wine measure and not Imperial, I think it would be considerably below 1 cent per gallon.

Q Well if ---

A For the same distance.

Q If it were the same in Montana for the Wine gallon that would mean it was higher, would it not?

A I am just trying to make a comparison, sir, on that, or to show the difference rather in that relationship of the 13 cent price we will say at Butte as against the 14½ cent price which is the maximum price in any other part of the States; in other words, it is 13 cents plus the very low rate to get it out say 150 or 200 miles, which makes the maximum price 14½ cents and as I said yesterday ---

Q That is where they have competitive truck-rail rates that that happens in Montana?

A Yes. They have low competitive truck-rail rates there; in other words the railways have reduced their rates down to the lowest trucking costs.

Q Throughout Montana?

A Yes. Therefore, as I said yesterday, the price of 13½ cents or the price of 16¼ rather in Montana makes our price at Calgary 3/4ths of a cent below the price today in Montana for the equivalent gallon, tank wagon, not including the fact that we have to pay the 8% Sales Tax

in Canada which 8% Sales Tax should be deducted from our price which would make the comparison, would make the difference rather, it would make our price in Calgary approximately 1½ cents lower than it is in Montana for the equivalent measure.

Q MR. HARVIE: And a better product in Alberta than in Montana?

A May I now commence ---

Q MR. HARVIE: If that is all, we are prepared now, Mr. Chairman, to commence on the volume which is "MARKETING COSTS".

MR. FRAWLEY: Yes, and I am very anxious for Mr. Miller to get on with Marketing Costs but I have to say that I would like to cross-examine Mr. Miller about this Montana freight situation but I do not think that I am able, I know I am not able to do it at the moment but I thought perhaps that I should make the statement that I will have to content myself with having Mr. Cottle go in with his freight rates from Montana and spend perhaps a considerable time explaining all, everything we can learn about the Montana freight rates situation. Now Mr. Miller, of course, is giving his evidence in the very best of faith on information he got from Montana but I simply want Mr. Harvie to know I am bound to take very considerable exception to it, that it is not the picture that Mr. Cottle got, after makings, after personally going there, studying the freight schedules and carefully examining the whole thing but there is no point, I am not prepared to cross-examine the witness now. I am merely stating my position about

it because at some later time, perhaps many weeks from now I will have to go into this matter. At that time Mr. Harvie will be here to cross-examine Mr. Cottle and Mr. Miller may want to come back to hear it also. I may say I am very glad Mr. Miller is making this effort, he is telephoning down to Montana to get this information, it all indicates his interest towards helping the Commission to get the information but to the best of my information at the present all I can say is, I do not think his information is correct.

MR. HARVIE: This is not a controversial matter, All we want is the correct information.

WITNESS: In order to help you further with that, Mr. Frawley, it is my intention, I am going to have our people prepare a comparable statement covering practically every operation of these freight rates, tank wagon prices, the dealer prices, the retail prices, compared with Alberta and submit it to you here through Mr. Harvie, submit the complete picture confirmed by the proper authorities in the State of Montana, which either will confirm what I have said or might confirm it with some slight change.

MR. FRAWLEY: That is an excellent suggestion because you people have facilities which we have not.

THE CHAIRMAN: It will be a very valuable statement.

WITNESS: I am having that prepared for you.

MR. HARVIE: We realize that it is a most difficult thing. Mr. Cottle has done his best and Mr. Miller is doing his best and we want the facts.

MR. FRAWLEY: I will put myself entirely in your hands, it will be fine, if your traffic man will prepare such a statement.

WITNESS: We will send it to you in statement form, map, graph, and in any other way that it is clear and confirm it by the proper authorities.

MR. FRAWLEY: Thank you. Now we will go on.

Q MAJOR LIPSETT: It seems to be a very important thing to everybody in the industry, because the picture you have given of the 1.20 rate in Ontario for instance for 100 miles as against you paying in this Province 2.32 cents, that should be 1.20 cents against 2.32 cents for 100 miles in this Province, it makes an extraordinary difference?

A Well that has been, it is the freight rate in Western Canada which has made the prices up here so high. I think, as I said yesterday, Mr. Commissioner, that you are going to find some reduction here in the freight rate, there is some talk of that.

Q THE CHAIRMAN: Speaking of savings one way and another, I observe, with some interest, that nobody has every adverted to any saving in connection with transportation through the pipe line, has that accomplished anything, the reduction of the pipe line rates?

MR. FRAWLEY: Oh, the reduction in the pipe

line rates that we completed in this Commission?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Well, it may be that something will be said about that before we finish. The rate is now effective, the new rate is effective as from the first of July.

THE CHAIRMAN: I heard it was effective and I did not want it to escape consideration. I have no doubt it will be argued before us pro and con and I have no view about it but I did not just want it ignored now and then talked about by Counsel in two or three months' time, when you have such a man as Mr. Miller in the box now.

MR. FRAWLEY: Here is how it will come, Mr. Chairman, Mr. Halverson's figures, Dr. Brown's figures, Mr. Cottle's figures, all of those figures are on cost of crude and laid down refinery costs as it was when they were talking ----

THE CHAIRMAN: Yes.

MR. FRAWLEY: But I have discussed that at the time with Mr. Halverson and Dr. Brown and it is simply a matter of changing the calculation, the laid down cost in the refinery today is just so many cents less than it was four days ago.

THE CHAIRMAN: I had in mind what you would have to say, Mr. Frawley, because obviously you had to do with the pipe line inquiry, but there may be something said on the other side from the standpoint of the companies, you see.

MR. FRAWLEY: Yes.

THE CHAIRMAN: They may say it does not settle that, that there should be a reduction of so much and I want them to be heard by us if they are saying the opposite of what you are putting forward.

MR. FRAWLEY: They must not be shy about these things at all.

MR. HARVIE: Mr. Frawley has not been shy in his suggestion.

THE CHAIRMAN: Well, that is all.

MR. HARVIE: It may be included in our over all.

THE CHAIRMAN: You and Mr. Nolan should have it in mind.

MR. NOLAN: Of course it has been brought to my attention in the last 48 hours through a statement of the Minister that appeared in the public press, which statement should be brought to the attention of the Commission.

MR. FRAWLEY: That is what I mean, all of these things ----

MR. NOLAN: And the statement.

MAJOR LIPSETT: Is that the statement which was in the Herald?

MR. NOLAN: No, sir. Well I did not see it in the Herald, if it did appear there, but Mr. Frawley was good enough to give me a copy of the Edmonton Journal of Saturday the 8th day of July and in it there was an announcement that the new pipe line rate was in effect and the new leading charges at the East Calgary terminal were in effect and then there

was a two paragraph statement of the Minister and the effect of it was that there had been a saving now of some 5½ cents and that the Government felt that a portion of that saving should be passed on to the consumer and that a portion of it should be returned to the Government to assist in defraying the cost of this inquiry.

MR. FRAWLEY: That statement was in both the Edmonton papers.

MR. HARVIE: I do not think it was in the Calgary papers.

MAJOR LIPSETT: There was something about the new rate going into effect.

MR. NOLAN: Oh yes, that was ---

MR. HARVIE: That was a week or so ago.

MR. NOLAN: That was what we call a "local story". That was not under an Edmonton headline but I do not think the Minister's statement was reported in the local newspapers and if so, I did not see it.

MR. FRAWLEY: I do not think so.

THE CHAIRMAN: I am not referring to any newspaper reports. I did not see any of them but what I wanted the companies to have in mind, as well as Mr. Frawley, is that no doubt it will be argued before us that the reduction in pipe line transportation costs will have an effect and it came to my mind because Mr. Miller at this moment is telling us what the effect would be if freight rates could be brought down to the place where he thinks they belong and if they have an effect on transportation, I suppose the reduction in

pipe line rates will have an effect too.

MR. HARVIE: Quite so.

THE CHAIRMAN: And I have not heard about it from the witnesses.

MR. HARVIE: If the statement by the Minister was properly reported, it is to the effect that we do not get the benefit of it, which is something which will have to be dealt with when we know more about it.

MR. FRAWLEY: If your witnesses have any comments to make to the Commission or submissions to make to the Commission, that is what the Chairman has in mind.

THE CHAIRMAN: Yes.

WITNESS: You might make a note of it, Mr. Harvie, and we will deal with it.

THE CHAIRMAN: If the Canadian Pacific Railway reduced the freights tomorrow, and the Canadian National also, I have no doubt Mr. Halverson will say it will have an effect on the price of gasoline to the consumer, Mr. Miller I mean would say that and I gather that from what he has already said. Now there has been a reduction in the transportation cost of oil from Turner Valley to the refinery. There is no doubt of that. What effect it should have is something I would like to hear from your company about quite as much as from the Imperial and quite as much as from Dr. Frey or those who may be speaking at Mr. Frawley's behest. Now that I have mentioned it you may have it in mind.

MR. HARVIE: It is a matter that we have only heard about in the last week and it has been given consideration too by our company and I am sure when the time comes we will deal with it.

THE CHAIRMAN: I have no doubt it was not even necessary for me to mention it at all.

WITNESS: You have made a note of it?

MR. HARVIE: Yes, I have.

THE CHAIRMAN: You are now going into some other Volume, are you?

A Yes, Volume No. 3.

MR. HARVIE: We will present this as an Exhibit, I think, in the same manner as the previous volumes.

(VOLUME NO. 3 PRODUCED AND HERE MARKED AS EXHIBIT "468")

MR. HARVIE: And along with that there is a book No. 2 of Graphs.

(BOOK NO. 2 OF GRAPHS PRODUCED AND HERE MARKED AS EXHIBIT "469")

Q MR. HARVIE: All right, Mr. Miller.

A In presenting our marketing costs for the Province of Alberta, we do not believe it is reasonable that these costs, together with our operations, be judged on the basis of any one year, which applies more particularly to the year 1938 which, due to the greater potential and volume we were able to secure, was the best year the industry had experienced in the Province of Alberta for some time and the best year in the history of our Company.

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We have illustrated to you the wide variable fluctuations this industry has to contend with in the Province of Alberta and the Prairie Provinces as a whole, which definitely govern from year to year our operations and costs and in order to define more clearly what we mean by these conditions, we thought the following might be of assistance in determining this proposal.

In the first place, this industry is closely related and definitely tied in with the main industry of our Prairie Provinces, being agriculture. We have pointed out the wide variations that have and do exist in that particular industry, not only in the production over the past ten years but the wide variation of prices received from its production. This has necessitated and received the closest consideration possible from the Oil industry in Canada, inasmuch as, first, a continuous service is essential and has been provided throughout all areas, both profitable and unprofitable. A special effort has been made to provide Petroleum Products in line with the many variating changes in mechanization and climatic conditions that have confronted us over the years.

It has always been our desire and objective to supply the consumers in Canada with their requirements in the most economical manner at the lowest prices possible and this applied more paaticularly during the years when agriculture was faced with tremendous difficulties in this Western area.

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Without any hesitation, we claim that whilst this industry has provided, after considerable investment, ample storage facilities, free delivery service, drums without cost to farmers, Petroleum Products would have cost the producer considerably more than has been the case in substantial losses if such facilities and service had not been provided. To explain this more fully, we maintain that delay in meeting his requirements duting the harvesting season would add to his cost of production, would create losses for him, losses for the Province and the country as a whole, in large amounts, as previously pointed out to this Commission.

In addition, during difficult times, before some of the Governments decided to assist in providing petroleum requirements in some relief credit form or other, this industry made its contribution. As an illustrated example, in the year 1929, due to the position of the farmer, in order for crops to be sown and subsequent harvesting, considerable credit was essential for both purposes. This apparently was not available from the Banks, Government or Municipalities, leaving the entire responsibility in the hands of the industry, which the industry readily assumed as part of its obligations to the country as a whole. During the year 1929, we would estimate that between Twelve to Fourteen Million Dollars in credit was carried by the industry, which estimate we base on the amount our Company extended, which was approximately FOUR Million Dollars.

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At the end of 1930, we had outstanding of this amount $1,800,000.00 and due to the period of drought, low prices for grain and depressed conditions, very little, if any, of this amount has been collected since.

The Industry has continued to assist the Governments in the further maintaining and improving agriculture developments during the depressed periods, by financial assistance.

We would like to point out that without the present wide distribution and the utilization of the most economic forms of transportation, full economies could not have been made. The former method of transportation and distribution of products in small packages, as in drums and L.C.L. shipments, would have maintained higher costs of marketing, through the provision of ample capacity in our outlets and wider distribution resulting in economies which the consumer has received the benefit in lower prices.

Q MR. COMMISSIONER LIPSETT: Before you pass from that, dealing with that extension of credit in that 1929 period?

A Yes, Sir.

Q Was there any special reason why you should give credit in that year or was it because you had been giving large credits and got caught in the depression in 1930?

A We had been giving smaller credits up until the financial crash, which brought about depressed conditions and the Banks were making loans to farmers. We found that in that particular year that there was no money available and that was before the time that the Government had also

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decided it was necessary to bring some assistance to the main industry of Western Canada.

Q MR. HARVIE: There was no money available from the Banks to the farmer?

A That is right.

Q MR. COMMISSIONER LIPSETT: Was that the case in 1929?

A 1930, Sir. At the end of 1929 and 1930. I said at the end of the year 1930. I beg pardon.

Q The bottom of the first page, Mr. Miller?

A 1930 that should be, Sir. In other words, the season of 1929-1930. To be frank with you I did not know what the farmer was going to do to get that crop in unless that money had been supplied and we can say that after going to all the trouble we could to investigate as closely as we could I do not think there would have been very much crop go in and consequently very little come out if it had not been that the farmers were given credit by the oil industry as a whole.

Q Do you mean that was for the crop that went in in 1930?

A Yes.

Q Instead of 1929?

A 1929, Sir.

MR. HARVIE: You wish to amend that on the first page to the year 1930?

A Yes, Sir.

MR. COMMISSIONER LIPSETT: It was at the end of 1930 that this money remained unpaid?

A Yes, that is right. Since that time in the areas of the west, that applies both in Manitoba and Saskatchewan but

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I do not know to what extent in Alberta, the Government have guaranteed advances, they have come to us each year, either the Premier or members of his Cabinet, and requested that we grant credit of which they will guarantee payment if it is not collected under certain conditions. We have waited sometimes for that money to be paid back a year, a year and a half and two years, as the case may be. I mention that because the Governments did take up that problem afterwards.

Q THE CHAIRMAN: At the bottom of page 1 do you want to change 1929 to 1930?

A I would, Sir.

Q During the year 1929, you want to make that during the year 1930?

A That is right, Sir.

Q MR. COMMISSIONER LIPSETT: And subsequent years you have had to provide credit only you have had a Government guarantee?

A That is right.

Q Can you give us any idea of the amount of that credit?

A Well, in Saskatchewan, Sir, in 1938, I think there was nearly one-half a million dollars.

Q That would be guaranteed by the Saskatchewan Government but the credit provided by you?

A Yes.

Q Was there any such practice in Alberta?

A I do not think we had any in Alberta.

Q MR. FRAWLEY: That is probably what keeps you in the drought area in Saskatchewan?

A Credit in Alberta has been of the unauthorized type. That is generally put out in the Fall of the year or in the Spring of the year, whichever the season may be and the

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operation of the farmer. He will come to us and say he would like a drum or two drums of gasoline and when he sells his hogs or something of that nature he will bring us the money. It is a temporary credit and it may be for a month or six weeks, something like that.

Q MR. COMMISSIONER LIPSETT: That is entirely a private thing?

A Yes. In the Fall of the year the majority of the farmers acquire their requirements to start their threshing operations on a credit basis, which is paid for subsequently after the harvesting is done.

Q You allow your agents, I suppose, to have some discretion, or you give them special authority to make those credits?

A In some cases we do and in other cases we restrict them. We have to use our judgment according to the area.

Q And you have to leave it to his discretion in a good many cases?

A Yes.

Q THE CHAIRMAN: How was that handled previously. Are you taking on what was formerly deemed to be a function of the Banks of the country?

A We did that year. That was the year we went into it deeper than we ever did before or have ever since.

Q MR. COMMISSIONER LIPSETT: Was that at the request of any Government or was that just that you had your customers and you thought you would try and help them through?

A No. In the Province of Saskatchewan the Government asked us to give all the aid we could.

Q In 1930?

A Yes. But they were not able to give us any guarantee at that time. Subsequently to that year they have given us guarantees.

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Q MR. FRAWLEY: That is in Saskatchewan?

A Yes, I am speaking of Saskatchewan.

Q MR. COMMISSIONER LIPSETT: With reference to that 4 million dollars, Mr. Miller, have you got any figures showing how much of that applies to the various Western Provinces?

A I haven't here, but we can get it.

MR. HARVIE: May I have that question again?

A That $1,800,000.00.

Q MR. COMMISSIONER LIPSETT: If you take the 4 million first?

A The distribution of the 4 million?

Q And the distribution of the $1,800,000.00?

A I mention that just because whilst that credit has been mainly in Saskatchewan the same conditions could or it is possible for the same conditions to arise in the Province of Alberta or in Manitoba. Saskatchewan could come back and have a few good years and the Province of Alberta might have adverse times due to the same conditions, drought, which they have there. I think the moisture charts that we will present showing the period of years, I think that is a very necessary thing. We are going to present that to you just so that your experts can make reference to it because that varies and fluctuates and naturally the crop varies and fluctuates accordingly.

Q I suppose you have taken the position you are operating throughout Canada and you could not pull out of a Province and leave the people without gasoline because of bad conditions?

A I am afraid if we did, Sir, we would not get back in there again,.

MR. HARVIE: And you would likely take a larger loss going out in that way than you did do.

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Q THE CHAIRMAN: I suppose a farmer, generally speaking, always requires credit in Western Canada operations. Where did that credit come from before 1930 and why did it cease?

A Before 1930? It mainly came from the Banks, Sir.

Q Do you know why the Banks changed their policy?

A No, Sir. All we know that particularly in the Province of Saskatchewan, and I think that is so throughout the West, in 1930 after the financial crash they were not prepared to advance money even on farm or collateral security.

Q MR. COMMISSIONER LIPSETT: Was that done as far back as 1930?

A As I remember it, Sir, in the West in 1930 and 1931 and 1932 they were not prepared to take farm securities or chattel mortgages or anything else, as they did formerly. Before 1930 the average farmer in Western Canada could drop into the Bank in his little town and get $100.00 or a couple of hundred dollars on a note, sometimes without security. If he got in a little deeper maybe the Bank manager would tkae a chattel mortgage or something on his chattels. That has not been available since unless it is within the last two or three years.

Q Do you think there is a possibility in the last two or three years of the Banks had been more liberal in giving credit?

A It has not been so in Saskatchewan; otherwise, the Government would not continue to guarantee this credit on petroleum products and on seed and implement parts and other necessities.

Q THE CHAIRMAN: Where for in previous years, as I am understanding you, and I want to be sure I am right,

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in previous years in Manitoba, Saskatchewan and Alberta the Banks had advanced the money which was required for the purchase of oil from the oil companies?

A That is right, Sir, unless a man was able to get by without it.

Q Quite so Commencing with the year 1930 there was a different Banking policy?

A That was just cut right out.

Q It was cut off and in the result with or without the encouragement of the Government the oil companies have had that added burden of financing their own customers?

A That is right.

Q In the purchase of the oil necessary for use on farms?

A Yes.

Q That which had been previously deemed to be a Banking function?

A That is true, Sir.

THE CHAIRMAN: That is not without interest.

Q MR. FRAWLEY: To what extent do you now get Government assistance and to what extent are you on your own in helping farmers and to what extent are you helped by Government guarantees in this Province, so far, or any of the Provinces?

A In Saskatchewan we extended credit and took bonds. In other words, a guarantee by way of bond.

Q MR. HARVIE: For what year?

A I think we had to hold those bonds for a certain period of time. Is that right, Mr. Bronsdon?

MR. BRONSDON: We still have them.

A Subsequent to that we issue credit with the Government requisition and they have guaranteed it and have made payment as they could from time to time.

Q THE CHAIRMAN: In Saskatchewan?

A. H. Miller.

A In Saskatchewan, Sir.

Q And in Manitoba?

A Manitoba, we have never had any bonds from Manitoba. There has not been the same necessity over the last few years at least to give any credit on the same basis as we did in Saskatchewan. It is more diversified. They have a different class of farm production and there is more stability there. The main difficulty has been in the Province of Saskatchewan.

Q What about Alberta. Have you anything to say about that?

A Alberta, Sir, we have not made any arrangements for credit other than I mentioned, which we made to farmers at different seasons of the year as a temporary line of credit.

Q You have no Government guarantees here?

A I do not think there has been any necessity for it, Sir. At least we have never been requested by the Government to put petroleum products out on their guarantee.

MR. COMMISSIONER LIPSETT: That credit in this Province, does your agent take the risk of that or does he join with your company in taking the risk or does the company take the whole risk?

A Well, it is really joint, Mr. Commissioner. In some cases our men take their own risk and in other cases we take it.

Q He puts it up to you and you authorize the credit and then you take the risk?

A Yes.

Q It might be of interest to you also, Mr. Miller, but I do not know whether it would be convenient or not - but would there be much trouble to give some sort of a graph or a picture or a statement showing the increased credit load you have had to carry since 1930 or is that a picture that you can give?

A. H. Miller.

A We could, Sir, yes. I think we could work it out for you.

Q If it was not too much trouble it would be of interest to your company to have it.

MR. HARVIE: I think it would be a useful piece of information. Credit risks prior to 1929 and from 1929 and subsequent years.

THE CHAIRMAN: It strikes me it is quite important. Here is a risk that the oil companies are asked to assume, which was formerly assumed by the Banks, and to the extent that there is loss increasing their costs of operation and insofar as they are not paid by some other agency, such as a Government, it is just a plain loss, and I think it is no side-issue at all if it looms as large as I gather from the witness it does, having regard to these figures we have here.

A I think we had better give you the year that the Government started the guarantee in Saskatchewan because if I remember correctly, this is only from memory, that we extended credit in 1930 and the crop was very unfavourable and I think we went along in 1931 and made further extensions except on a limited form. In other words, we were still optimistic the same as the farmer is the next year is going to be better. I think that went on for a year or two. But we will give you the date that the Government took over. In other words we finally said "We just cannot do it any more" and then I think the Government came to our assistance in Saskatchewan.

MR. FRAWLEY: I think there is some legislation here, but perhaps you have not any knowledge of it. I think they call it the Agricultural Relief Act. Those may be relief cases but there is some assistance granted by

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the Government by way of guarantee to the oil companies to get petroleum.

MR. HARVIE: Through the municipalities.

MR. FRAWLEY: Through the municipalities. Apparently your company has not had any occasion to avail itself of this Statute, which, perhaps, speaks well for the farmers of this Province.

MR. COMMISSIONER LIPSETT: There may be some additional burden placed on the oil companies of providing the extra capital to supply this credit, apart from the actual loss.

MR. FRAWLEY: What I am interested in is what Mr. Miller said the other day. Apparently he has had a bad experience in Saskatchewan. They have had to take bonds, which Mr. Bronsdon says they are still holding. That is interesting to know where did the funds come from to enable the company to stand that strain on their finances. Perhaps they are from the Eastern business. Perhaps their business in any Province in which they made a profit enabled them to do that. Perhaps that is one of the reasons they have to have this spread that we are analyzing so critically. That is the interesting part of Saskatchewan. You will observe, as I have, that Mr. Miller keeps stressing his experience in Saskatchewan, which is very important to him and very important to us because if - to put it plainly - if the Alberta spread has something in it to help Mr. Miller look after Saskatchewan-----

A They are very interesting, Mr. Frawley, and they are important because if you will look at the trend of everything over the past ten years, your moisture, your crops,

and your prices that the farmers get for their crops, and your drought situation and your hail situation, you will find it is quite possible - I hope it is not and I hope it does not happen - but it is quite possible for Alberta to run up against the same condition as has Saskatchewan. And that being the case in this Province every year and that every one of these agency points there are several thousands of dollars out on credit, it is out in the hope that the crop is going to be taken off. Now, if it is hailed out or it is dried out or burned out or some other unfortunate condition takes place we are sometimes caught. In other words, it is too late then.

Q To put it very inexpertly, I am sure, we have talked about the City carrying the country in Alberta. That has all got to be further explored and so on, to what extent it does exist and so on. Now, perhaps the rest of Canada is carrying Saskatchewan insofar as your company is concerned and putting it rather inexpertly that costs money. It costs the British American Oil Company money to put out that credit in Saskatchewan, the huge amounts of credit which Mr. Bronsdon says is still owed, you must have the means of doing that and I suppose it perhaps follows and perhaps there is nothing remarkable about it at all, it follows that you do in the other Provinces, and the other Provinces are providing a much better experience for your company, but you still have to have what you do get in the way of a marketing spread to enable you to carry on the business operations in Saskatchewan. That may be, perhaps, not a very clear way of putting it but I think it is interesting to know.

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THE CHAIRMAN: I think you make your point very clearly and we have heard you before. But what is your suggestion or tentative suggestion, that they should be delimited by Provinces?

MR. FRAWLEY: That is running through my mind, which, as I say, is an impractical thing, but I put this suggestion forward.

THE CHAIRMAN: It seems that a Canadian company doing business in Canada is entitled to say "This is my field of operation and I am not going to make a special promise for Okotoks or for Alberta." Here is a Western Canadian situation. We are treating that as something apart from the East or approaching it any way they like. I am just wondering, are you suggesting to us that the witness will be called on to think of and deal with Alberta as a thing apart?

MR. FRAWLEY: I do not think so. I do not think Dr. Frey is going to make any such submission as that. Any more than in the Province. The result would be out around Cereal, where things are bad and where they are the lowest of the low, then it is possible they would have to pay a special high price and Calgary a special low price. That would seem at first blush to be the right way to do it. I just wondered to what extent these things do creep in.

THE CHAIRMAN: There may be some force in what Mr. Miller says, that one year you have a drought in one place and another year a drought in some other place and they take the picture over a number of years and so on.

MR. FRAWLEY: But it is on the principle of taking nothing for granted and trying to explore every possible angle.

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THE CHAIRMAN: Quite so, Mr. Frawley.

MR. COMMISSIONER LIPSETT: You would put one in the position that you have, of course, without criticism, of what we have been more or less complaining of in reference to rates, that is that the railways are discriminating against the West because it costs a little more.

MR. FRAWLEY: Because it is thinner and all that. Yes, I suppose so.

MR. COMMISSIONER LIPSETT: I gather the witness' obection to that is there should be a reasonable basis all over Canada instead of giving lower rates in the East and charge higher rates for the same distance in the West.

THE CHAIRMAN: There again there is volume and I suppose that plays a part.

MR. FRAWLEY: If the railway companies come, as we all seem hopeful and Mr. Miller has thrown out the suggestion from time to time that something may come of the negotiations now pending or of the application now pending, I should say, it won't be because they are going to see any saving. It is just going to be to prevent the loss and the greater and greater loss of gallonage to the trucks. They will come to it and say "We have to cut these rates down to hold the business."

A You are right, it is competition that is driving the railways to do it at less. As a matter of fact, our estimate is that there the railways in the three Prairie Provinces have lost over 30% of their tonnage that they formerly held. In other words, they are only hauling 70% to-day of the total petroleum tonnage.

MR. COMMISSIONER LIPSETT: Perhaps the horse was stolen before they locked the stable door.

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A I may say that this form of distribution we put in, we took approximately 20% of the total in the west and if they lost that then they would only have half left. There were great possibilities of them losing a big percentage of ours because when we were constructing our plants we advised them ahead of time we were constructing these plants for dual transportation purposes and that we intended to make our shipments, because we were more or less forced to make them that way, at the lowest possible price that we could ship them for, and I think that on the whole it is going to bring about a lowering of the freight rates in the west and it is not coming any too soon.

THE CHAIRMAN: It is all so difficult. I suppose the railways would say "Well, look at our costs of doing business"?

A Quite right, Sir.

Q "And see what we are paying our men and see how we are managing to get along"?

A They have had a hard time out here, no doubt about that.

Q It is all very difficult?

A They, like ourselves, have to rely on this big industry that we have, which is agriculture.

(At this stage the Hearing was adjourned until 2:00 P. M.)

....

ALFRED HERBERT MILLER,

having been recalled.

Q MAJOR LIPSETT: Mr. Miller, there is another thing that I want to get you to deal with at some time or other and I put it on the record, with reference to this policy of the undivided dealer, I would just like to get your views as to the soundness of that in principle. The position as I see it is that the undivided dealer gets an extra cent?

A That is right, sir.

Q The man who is not an undivided dealer, he is handling the gasoline 1 cent cheaper than the undivided dealer, that is has 1 cent less spread?

A Yes.

Q Now if there is no undivided dealer and any dealer could handle two or three brands of gasoline, in one view it might be said that that cent would be saved to the public, or it might be that thay could not be done, or it might be that the principle is quite sound but I would be glad if you would give us your whole views on it?

A I think-----

Q Assuming that your view would be that the principle of the undivided dealer is sound, whether there could be any saving in marketing costs which could be passed on to the public if you extended that principle to what I might call the undivided consumer, so that if you had the consumers, if they would agree to use no other gasoline except from the one company that they contracted with, whether that would be done through credit cards or whether it could be done at all or whether there would be any pos-

sibility of reducing the cost of gasoline to the undivided consumer by a cent or any other figure; I do not want you to answer now but I would be very glad if at some stage you will deal with that?

A All right, Mr. Commissioner.

Mr. Chairman, in the first part of the marketing cost where we have 1929 I think I am more correct in the first statement of 1929 than I am in 1930 and I will have to change back to 1929 and in checking that up at noon time, whilst I thought I was fairly conversant with it, I refreshed my memory on the, on how that came about in 1929 and we find that this condition existed, that there was a tremendous tightening up of credit about the Spring of 1929 notwithstanding that the market and everything was zooming sky-high.

Q That is by the banks you mean?

A Apparently the banks had determined that the thing was uneconomical so it got to its limit and they had started to curtail very drastically credit before the market crash and as I say we started to extend that credit during the Summer-fallowing work of 1929 and particularly the harvest work, because as I say credit was difficult to secure and the market crash took place in October and the balance of the threshing was taken care of by credit from the companies and then that went into 1930. In the Spring of 1930 there was no money available as I said this morning in any other credit form on ordinary farm security, chattels or land, and we did develop it with certain authorities as to,-and so did the various farmers' associations particularly in Alberta,-with the various

authorities to see what could be done but I find it took just about a year for the Government to take hold and start to have credit established by us guaranteed by them.

Q THE CHAIRMAN: In Saskatchewan?

A Yes.

Q You did not have any guarantee in Manitoba?

A No, there was no guarantee in Manitoba?

Q Nor Alberta?

A No.

MR. FRAWLEY: Then is this second paragraph then, Mr. Miller, on page 2, to be largely confined to your experience in Saskatchewan.

"The industry has continued to assist the govern-
"ment in the further maintaining and improving
"agricultural developments during the depressed
"period, by financial assistance".

A We are going to give you a statement of the division of the $4,000,000 which we expended and I think you will find in that statement that Saskatchewan enjoyed the major portion. As to what extent, it may be 50% or 55% or 60%, I do not know, but that will show in the statement.

Q Yes, you are getting a statement?

A Yes, we are getting that out for you now.

Q THE CHAIRMAN: I just do not understand, I take it that where you extend credit for oil you make inquiries as to the financial soundness of the man you are extending it to, take in Alberta, I am not speaking now of where you have a Government guarantee where you might be less careful perhaps but take the Province of Alberta, you

extend credit to a farmer for oil?

A Yes.

Q I take it that you make such inquiry as you deem necessary to determine that he will repay you the amount, the cost of the oil you are giving him?

A Well sir, due to the wide ramifications and the tremendous size of the territory, it is not possible for us directly or indirectly to secure the information we would like to obtain before the credit is granted. The majority of the credit granted to the farmers is one which has really a moral touch, a man may be located we will say out of Innisfail for several years and he may be a good type of citizen, fairly well regarded and his usual habits are generally known by our agent or our supervisor covering the territory and we have to rely more or less on their judgment rather than act on any financial statement as to his ability to pay as the credit is granted. In many cases it has been a repetition over the years. We have many farmers in Western Canada who have bought on a credit basis each year, some for 5, or 10 or 15 and maybe 20 years and they either meet their obligations when due or give us certain reasons why they cannot and we have extended it until they could and then better times prevailed or when they had the money they paid us and that is really the basis upon which the credit is extended to the farmer.

Q And do you attempt to take securities?

A No sir.

Q With respect to your oil advances?

A No sir, we have never taken, we have never taken security from the farmers that we trust.

Q Have you suffered much loss or are you giving a statement

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about that?

A We are giving a statement on that, sir.

THE CHAIRMAN: All right.

Q MR. HARVIE: Mr. Miller, just on that point, is it practical from what you have said to inquire much further; as I take it the farmer comes into your station and you really have no notice of what credit he wants until he is right there to get the product, is that the case?

A He comes in, as I said, and it is usually the judgment of, granting that credit is generally in the hands of the man, the agent in the field, and if he gets into trouble why then he passes it back to us and we have to work it out in the best way we can.

Q THE CHAIRMAN: And you say you have no concrete arrangement with your local representative as to whether he bears the loss or you bear the loss or you each bear part?

A No sir.

Q I mean as a practical thing how do you work that out, if he gives a man credit today----

A Well during the period that this large amount of credit which I referred to in this brief was granted, that was a 100% responsibility of the supplying company. No one else accepted any responsibility for that, over the period.

Q Just a minute, please, that is the 12 to 14 million?

A Yes.

Q Now was the Saskatchewan Government behind that 12 to 14 million?

A No sir.

Q Oh, no Government there?

A No sir and that was carried directly by the supplying company; in other words our agents or distributors or any one else did not participate in the responsibility of the collection of that amount which was extended to the farmers or by collection, I mean the paying, if it was not collected.

Q Yes?

A And then the usual procedure has been I think over the last ten years that, in some areas it has been granted by the companies direct and in other cases it has been granted by the agents without the authority from the company which we term "unauthorized credit"; in other words the agent takes upon himself, takes a chance based on the moral judgment of the farmer and extends it to him, extends credit to him for a short time term and as soon as he gets the return from that production on the farm then he pays the agent back and the agent pays us.

Q MAJOR LIPSETT: You have some security, I suppose, as against the agent to the extent of the commission which will be due to him at the end of each period, would you not?

A That is the only thing we would have, Mr. Commissioner, but naturally those commissions would only be a very small part of the amount which would be out in any year.

Q Yes, and I suppose you cannot leave the agent without a livelihood?

A No sir, we could not do that.

Q By taking the whole amoun'

A We could not do that. What we really have to do is to consider the whole picture, use the best judgment we can

and make the best arrangements possible for the collecting to be made and if there are crop failures or something intervenes, which prevents that man from paying, we have to try and work it out with him in the best manner possible and wait until he can pay.

Q Would it be fair to put it in this way, that where the agent, that the company takes the loss unless the agent has done something of which you disapprove and you might then try to make him personally responsible, through the commissions?

A Yes.

Q THE CHAIRMAN: I thought it was divided in a clean-cut way, the authorized advances the agent is not liable for and if unauthorized the agent was?

A The agent was but then on the unauthorized, as the Commissioner just said----

Q You would help him out?

A We have to help him out and wait or use patience and possibly compromise.

Q And I suppose you are put to some cost in making the collections and keeping books of accounts concerning all these advances?

A There is a cost there, sir, the accounting cost.

Q Your agent of course will have to keep those books and I suppose that costs you nothing but you also have an accounting and collection problem at your Head Office, have you not?

A We keep the record there, yes.

Q MAJOR LIPSETT: Your Head Office record will it be just against the agent, and would the agent keep the

account as against the individual farmer?

A On the unauthorized, yes, on the unauthorized that would be proper, between the consumer and our agent.

Q In the case of the authorized credit then that is carried by your books, the company's books?

A Yes.

Q THE CHAIRMAN: Well what I am trying to arrive at is just how much money it is costing the oil companies to perform the functions of a bank in part?

A Well I think that can be arrived at, Mr. Chairman, in the statement which is being prepared.

THE CHAIRMAN: I see.

WITNESS: May I proceed.

Q THE CHAIRMAN: Please.

A In Volume 2 of our brief, we have illustrated many reasons responsible for the wide variation in marketing costs from year to year and whilst you are not directly interested in the Province of Saskatchewan or Manitoba, we wish to submit four Graphs, which show clearly the relationship of marketing expense or cost per gallon and the fluctuating sales in these areas. We particularly want to point out the wide variation between the Province of Saskatchewan and the Province of Manitoba. In Saskatchewan particularly during the drought period from 1930 to 1935, the Graph clearly illustrates how our cost per gallon in cents, rose out of all proportion to normal periods. In Manitoba, however, due to the more diversified agriculture operations and consequently the producer being able to rely on revenue from the many forms of agriculture production, there is naturally greater stability and consequently a more normal trend in both production sales and costs accordingly.

A. H. Miller.

Although we do not contend that Saskatchewan conditions have obtained to the same extent in Alberta, the wide variation in markets are, however, evident and possible as fully illustrated by the Graphs. Alberta distribution of costs has benefitted by the volume of business in all Provinces, through the sharing of overheads, although each has borne its direct cost of distribution which is by far the larger item of our marketing costs. It is emphasized that business is dependent on prosperity and depression, which in view of the character of the major industry in the West, fluctuates very widely. In an equitable consideration of costs it is necessary that a reasonable period should be used and not one year, in which the detailed marketing costs submitted happens to be the best in the history of the Company. It has been most effectively demonstrated that future years will be different and no forecast of ours can foresee to what extent the change resulting will be - down or up; possibly down. For this very good reason, a period of, say, ten years is not unreasonable as a basis of determination as to whether our marketing costs have been equitable, economic, and our operations efficient.

If you would not mind, I would refer you to the Graph before I finish the brief. At the start there we have Saskatchewan. The first item, Consumption of Taxable Products, is Provincial. The second item, Consumption of Taxable Products Refunded is Provincial. Car Registration is Provincial. Amount of Marketing Expense is British American. Amount of Marketing Expense Less Bad Debts and Drum Write-offs is British American.

Sales of all Products Tank Waggon is British American. Cost per Gallon in Cents is British American and Tractors are Provincial. That graph runs from 1928 to 1937.

MR. FRAWLEY: That is the same graph as the graph which is in Exhibit "444" for Alberta?

A Well, it is not exactly the same, no, Sir.

Q It seems to be the same kind of items?

A In Alberta it is the Alberta Government and this is the Saskatchewan Government.

MR. HARVIE: It deals with the same things.

MR. FRAWLEY: It would appear to be identical information. This is Saskatchewan's picture and that was Alberta's. I just wanted to know if it was the same kind of a graph.

A Well, the headings are there.

Q Well, yes, and that controls it.

MR. HARVIE: It is the same information, I think.

MR. FRAWLEY: This is the one that we asked you to supplement by putting in the words "Provincial" or "British American"?

A Yes, we did. Now, what we have had in view was that in this Province under comparable conditions as they appear there, that we have had say rather in the Province of Saskatchewan that our cost of operations would be identical or the result of our operations rather would be identical to that shown on the Saskatchewan map. These items I mentioned start off on that chart at 100 and you will note we show there the gallonage or consumption of taxable products in the black line for 1929. You will notice in

1930 it reached its peak at about 132% and it then tobogganed down to in 1932, it kept going right down till in 1932 it reached about 56%. Our sales, and I suppose likewise those of other companies in the industry, went proportionately down with the consumption decrease as shown. As a matter of fact, in 1929 our sales showed 20,260,000 gallons.

MR. HARVIE: That is shown on the graph, these figures.

A And we had a cost there of 5.47 cents per gallon. In 1930 our sales were 20,873,000 and we had a cost of 6.6 cents per gallon.

Q MR. COMMISSIONER LIPSETT: 6. how much?

A 6.6 cents per gallon. Then with the decline of sales in 1931 our cost was 7.12 cents per gallon and in 1932 they were up to 10.31 cents per gallon. You will note then they started to decline and in 1933 we had them down to 8.39 cents per gallon; in 1934 they came down to 7.29 cents and in 1935 they were down to 5.71 cents per gallon or just about back to where they were in 1929. Afterwards they rose slightly to 6.05 cents in 1936 and 6.27 cents in 1937. Now, likewise the sales declined from a peak of 20,873,000 in 1930 down to 13,864,000 in 1931; 11,286,000 in 1932 and down to 9,573,000 gallons in 1933, and then they gradually rose to 11,121,000 in 1934; 12,233,000 in 1935; 13,201,000 in 1936 and back down to 12,166,000 in 1937, which goes to indicate, I think very graphically, that in the first place a company operating such as ours, we cannot cut our costs overnight. In other words, in the Province of Alberta or any other Province we have to

build an organization. We have to provide the facilities necessary and the organization must be efficient in order to operate our business in an efficient and economical manner. When we get adverse conditions that are liable to strike this Province, as they are any other, due to the main industry being agriculture, in every case our cost per gallon must increase, when our business decreases because there are definite costs that we cannot eliminate. We still have to pay our taxation; we still have to maintain our investments, our plants, our repairs and maintenance of equipment, and we cannot cut our personnel, as I say, overnight. Therefore, it has been usual for us to continue on in the hope that the next year will be better, and this is exactly what we did here in Saskatchewan, which can be well illustrated. It is quite true that after a certain number of years or after two or three years our patience and optimism becomes exhausted and then we might cut further than we did at the start. But in cutting down any organization of our size it must be gradual. It cannot be immediate because, as I say, it takes time to build efficiency into an organization, and if you cut it off overnight you have to come back and do it again later when conditions improve. That same Sasktachewan picture is broken down for you on the second graph. I won't go into the figures but it shows particularly the southern half of Saskatchewan, which we knew then as the Regina Division. And as you can see when compared with the Saskatoon Division, it was hit worse than the northern part of the Province. The Saskatoon Division is shown there as the northern part of the Province. In Manitoba, which is also illustrated on that graph, and the figures

and the sales, that is the cost per gallon and the sales are illustrated there in the same manner as they are in Saskatchewan, which I read. You can tell at a glance how much more stability there is in the Province of Manitoba compared with Saskatchewan. In other words, it is diversified farming and their sources of revenue come from many branches of the farming industry instead of in Saskatchewan mainly all grain. Whilst Alberta is also better off from a mixed farming standpoint than Saskatchewan, it is not as good as Manitoba. In other words, a great area of Alberta is wide open, wheat growing country similar to that of Saskatchewan, and we feel that the relationship which Alberta bears to Saskatchewan is more comparable than that of Manitoba, as far as agriculture is concerned. Now, we will go back to page 2. I am putting these graphs in as Exhibits.

MR. HARVIE: They are already in as an Exhibit.

Although the year 1938, for which we are about to present our marketing costs, was the largest in volume in the history of the Company, therefore the unit marketing costs show a reduction per gallon over the previous year. It demonstrates that the Company has operated upon a very economic scale. During the year reductions in the price structure have been made in line with the economic factors surrounding free competition and the Company has maintained its usual high standard of service in the interest of more efficient operation and performance of its customers' equipment.

A new Refinery has been constructed to maintain the high standard of the product we marketed, in line with

the general policy of the Company. This improved product will continue our service in making available, better and more economic fuel for our customers' equipment.

As mentioned, taxation, and particularly indirect taxation has increased - we refer in particular to the gasolene tax paid by the consumer which is now ranging from 6¢ - 7¢ - 8¢ and 10¢ per gallon in various Provinces in Canada. This gasolene tax increase has kept abreast with gasolene price decreases and in some cases has more than offset the reductions made in prices across Canada, thereby increasing the price to the consumer. As an illustration of this - in the Maritimes on March 15, 1938, under price control regulations, the Industry was forced to reduce its price two cents per gallon and immediately co-inciding with this, the gas tax was increased from 8¢ to 10¢ per gallon, which tax would be greater than the cost per gallon of imported gasolene at the Canadian terminals - Halifax or St. John.

The imposition of taxation which offsets the reductions due to economics in the industry to a large extent nullifies the effect on increased consumption by reduced prices, unless compensating benefits are received by motorists in improved highways and other facilities.

We believe that sound business encourages consumption by lower prices and naturally volume means lower costs. We feel that free competition ultimately eliminates unprofitable operatiom when protected by fair practice.

As an illustration of the preceding two paragraphs we attach two Graphs. Graph No. 1 shows the trend in Service Station price of gasolene in twelve representative

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Canadian cities with and without the inclusion of the Provincial gasolene tax and the trend in the gasolene tax imposed by the Provinces.

Graph No. 2 illustrates the tank truck price of gasolene in Calgary over the period 1925 to 1939 with and without the Provincial tax and the trend in the Alberta Provincial Gasolene Tax over the same period.

I think I have already submitted these graphs when the matter came up before but they are there again.

MR. FRAWLEY: You can mark them, I think, Mr. Chairman. They are Exhibits "454" and "453" in the order here. "454" is Graph No. 1 in this Exhibit and "453" is Graph No. 2.

Q Now, Graph No. 2, Exhibit "453", it speaks for itself, of course, Mr. Miller, but starting with 1936 the tank truck price has come down rather markedly in Alberta, has it not?

A That is right.

Q It has come down just about how many cents according to the graph. It has come down from 23 to 16½, has it not? 6½ cents it has come down, and during the same period the gasolene tax has gone up 1 cent?

A That is right.

Q MR. HARVIE: Since 1925 the tax has gone up----

A 1 cent. The next item in that Volume 3 in connection with marketing costs is what you requested, Mr. Frawley, and is a schedule of Filling Stations Investment as at 31st December, 1938. Do you wish me to read that or is that the information as you requested?

Q MR. FRAWLEY: This was not done for us, was it?

A I gave you the service station gallonage for Alberta covering the City of Edmonton and Calgary and those three service stations we have outside in the Province in Volume No. 2, and you wanted a schedule of Filling Stations Investment, and you said you wished the investment broken down to the Investment in Equipment, Buildings, Miscellaneous Equipment, etc.

Q Mr. Cottle says we need one, so perhaps I did.

THE CHAIRMAN: We have it anyway. If anyone has no special questions to ask about it we will take it as read.

A Thank you. The next item then is British American Oil Company Limited, Schedule of General and Administrative Expenses Applicable To The Marketing Department, Province of Alberta, Year, 1938.

Advertising	$ 24,932.19
General Engineering Expense, Toronto	4,645.16
Traffic Department, Toronto Expense	4,656.20
Purchasing Department, Toronto, Expense	2,406.34
Legal Expense	1,753.79
Executive, Sales and Accounting Departments, Toronto	9,005.93
Bank and Debenture Interest	12,187.32
	$ 59,586.93
Dominion and Provincial Income Tax	89,659.85
Total	$149,246.78

A. H. Miller.

Q Just one question on that. Will you let us have, either now or later, the basis of the apportionment between all your marketing divisions and Provinces?

A Well, the proportion, that is the proportion of the total allocated to Alberta on sales value.

Q On sales value?

A Yes, Sir. In other words, that is Alberta's proportion according to the sales value of our costs of these various items in Canada.

Q Well, Mr. Cottle suggests it might be useful in view of the fact other companies use other bases if you can tell us what it would be, would you be able to tell us what it would be if it was on a gallonage basis?

A It was on a sales value basis.

Q This is on a sales value basis, but other companies use other methods and for the purpose of correlating them, can you tell us what it would be on a gallonage basis?

A We can work it out for you but I could not give it to you from memory.

Q Thanks.

A Our head office charges are based on the sales value for Canada and that is the total allocated to Alberta on the sales value basis.

MR. HARVIE: I think, maybe, Mr. Chairman, if Mr. Cottle finds that it is really of any great use to him to have it worked out the other way and he requests it, we will be glad to supply it. But so far any evidence that has been acquired is on this same basis. Now, that is a lot of work.

MR. FRAWLEY: We are in the hands of the company,

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of course. Mr. Cottle tells me that is the way he requires it, and if they will please give it to us - I won't say if they don't want to but I have asked them.

MR. HARVIE: We will be glad to if it is to be of any service. But if the other companies have done it on the same basis as this I wonder if it is necessary. But if Mr. Cottle says it is we will do it.

MR. FRAWLEY: He says it is, Mr. Harvie.

MR. HARVIE: That is all I am asking.

A The next page is a breakdown of that Advertising Amount for the Province of Alberta, $24,932.19. Radio, Newspapers, Road Maps, Printed Matter, Key Charms, Reflectors, Crests, etc., Charts & Oil Stands, signs, Lighting, Maintenance, etc., and Miscellaneous.

Q MR. FRAWLEY: Is that also an allocated amount or an exact amount?

A That is all allocated too.

Q On the same basis?

A Yes, Sir.

Q That Radio of $18,000.00, that is an allocated amount you have just told me, of course. But I do not know and I am curious to know if that was money spent in this Province or an allocation of a portion of moneys spent in some other Province?

A That would be the proportion spent, or the proportion rather, allocated to Alberta of the total spent, according to our business in Alberta on a sales value.

Q MR. COMMISSIONER LIPSETT: Has there been some radio advertising done in Alberta?

A Yes, Sir, throughout Canada.

Q It would not simply get into this unless there was some spent in Alberta?

A No, that is quite right, Sir. The advertising programme that we have is a National programme for Canada. In other words, the same advertising that we do in Alberta, by radio at least, is the same advertising that we do in Ontario or the Maritimes. Page No. 5 is British American Oil Company, Limited, Marketing Costs, Province of Alberta, Year, 1938.

Management and General Expense	$ 53,600.67
Provincial Offices Expenses	94,492.50
Sales Expense	53,618.46
Branch and Agency Expense, including Commissions paid to Agents	341,920.15
Maintenance of Dealers' pump equipment	13,387.67
Filling Station Expense	14,483.06
Depreciation on General Marketing Plant, Branches and Agencies Service Stations, Truck Tanks, Tank Cars, Drums and Barrels and Miscellaneous Equipment	68,885.78
Less Sundry Credits	(R) 29,579.92
Total Marketing Expenses	$610,808.37

That is direct marketing, Alberta expense.

(R) indicates figures in red.

A. H. Miller

The next is the Schedule of Marketing Expenses in the Province of Alberta for the year ending 31st December, 1938. Management and General Expense:

Exchange	$ 3,858.98
Legal Expense	666.58
Divisional Managers Salaries	21,165.45
Divisional Managers Expenses	11,629.46
Western Sales Office Expense	3,191.97
Bad Debts	1,789.40
Corporation Tax	3,750.00
Moving Expenses	626.86
Drum Expense	6,921.97
Making a total of	$53,600.67

Q MAJOR LIPSETT: Does that represent the entire bad debts for the year, Mr. Miller, that figure there?

A Yes.

Q What they actually had to write off as bad?

A That is it.

Q Then the "drum expense", what would that mean, is that depreciation or is that actual cost?

A That is repairs and maintenance of drums, sir.

I see.

Divisional Office Expense:

General Sales Expense	934.31
Postage	4,270.90
Salaries	51,005.73
Rent	2,044.56
Mercantile Reports	2,131.26

A. H. Miller

Machine Upkeep	611.89
Stationery	5,067.91
Taxes	5,408.04
Sundry	3,572.21
Auto Expense	4,092.57
Office Expense (Heat, Light, Phone, Telegrams etc.)	10,044.41
Insurance	662.13
Travelling Expense	4,646.58

Making a total there of Divisional Office Expense of $94,492.50.

Sales Expense:

Salaries	21,689.24
Travelling Expense	9,356.08
Auto Expense	12,347.93
Sundry	74.32
Advertising	256.98
Moving Expenses	280.08
Asphalt Expense	2,177.47
Sales Promotion	6,374.03
Service Patrol Inspection	1,062.33
Making a total of	$53,618.46
With a grand total of	$201,711.63

On the next Page is a Schedule of Marketing Costs in the Province of Alberta continued; Branch Expense continued.

Branch Expense:

Warehouse Wages	12,559.17
Warehouse Expense	2,864.63
Plant repairs	4,887.86
Sundry	.24

A. H. Miller

Rent	3,345.03
Taxes	16,799.68
Heat, Light & Power	1,416.91
Delivery Expense	19,094.01

Q MAJOR LIPSETT: Is that "delivery expense", Mr. Miller, is that the cent and a quarter which you allow to deliver to farmers?

A No, sir, that cent and a quarter is in that item of $341,920.15.

Q That is the item that you are giving the breakdown of?

A No, sir, that is the agency commission part of the $610,000.00 there, sir, on Page No. 5.

Q Well, you are giving now the breakdown of the Branch Agency Expense $341,920.15?

A The branch expense of that comes in, that is not out of the cent and a quarter, sir, that is our own delivery expenses, Calgary and Edmonton branch.

Q I see, that is quite distinct from the cent and a quarter?

A That is right, sir.

Legal Expense	1,273.06	
Insurance	4,980.60	
Agency Shortages	142.02	(in red)
Telephones	1.80	
Returned Drum Freight	4,292.65	
Truck Revenue	1,073.65	(in red)

That is a credit.

Commissions	264,056.41
Shipping Costs	7,563.77
Making a total of	$341,920.15

Q MR. COTTLE: Mr. Miller, what is the last item, "shipping costs"?

A Shipping costs?

Q Yes.

A It would be the cost of shipping out of Edmonton and Calgary Branch.

Q That is a handling expense, is it?

A Yes.

Q COMMISSIONER LIPSETT: In that $264,056.41, that cent and a quarter for delivery is included?

A That is right, sir.

Contract Pump Maintenance:

Painting	2,367.73
Globes	2,051.62
Repairs equipment	3,272.07
Signs	423.99
Depreciation	5,017.18
Sundry	255.08
Showing a total of.............	$13,387.67

Filling Station Expense:

Expense	37,714.97
Less: Revenue	23,231.91
Showing a total of.............	$14,483.06

Depreciation:

General Plant at Branches & Agencies	41.605.91
Service Stations	14,712.37
Truck Tanks	1,452.43
Tank Cars, that is the proportion to Alberta	3,437.02
Drums & Barrels	7,678.05
Making a total of.............	$68,885.78

Or a total of $640,388.29, less credits, interest revenue, Mortgage interest, Gas Tax Commission and Miscellaneous Revenue, $29,579.92, making a grand total of $610.808.37.

Q MR. HARVIE: Would that be an appropriate place just to give that information about the Gas Tax?

A This is in connection with the request this morning. The agents of the Minister ---

MR. HARVIE: It might be marked as an Exhibit, Mr. Chairman.

(SUBMISSION PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "470".)

WITNESS: The Agents of the Minister, or in other words, Oil Companies appointed by the Government to collect Fuel Oil Tax are reimbursed on the basis of 2½% of the value of the tax collected, which on the basis of 7¢ per gallon works out at $ .00175 or .175¢ per gallon and which expressed in our marketing costs would be $ .00093 or .093¢ per gallon.

Provision is also made for refund to the Oil Company of Gasolene Tax included in amounts written off to bad debts. After the account has been two years without any debit or credit entries having been made the procedure followed is to ascertain what proportion of fuel oil is included in the amount written off, the refund being based on the number of gallons so included, less the commission previously paid.

A. H. Miller

The amount received from the Alberta Government during the year 1938 by way of commission on Gasolene Tax collected is approximately $22,000.00.

Q MR. HARVIE: That would account for the large portion of this $29,000.00 which you refer to?

A Of a credit which we show there.

Q MAJOR LIPSETT: I suppose, Mr. Miller, there is no doubt that it could not by any other method be collected as economically as the system in force?

A I am afraid not, sir. Any other I think would cost considerably more.

Q MR. FRAWLEY: But you do not have to stand any part of the bad debts which is represented by taxes, it is clear from this?

A We show it right there.

MR. HARVIE: We carry it for a couple of years though.

WITNESS: The next page under these Marketing Costs for the year 1938, we will give you some further information. The first item in the total marketing expense is total expense ----

Q THE CHAIRMAN: Is that right, I just want to understand that,

"Provision is also made for refund to the Oil
"Company of Gasolene Tax included in amounts
"written off to bad debts."

And does Alberta give you back anything with respect to bad debts, and Manitoba?

A Oh, yes.

Q MR. HARVIE: Just with respect to the taxes?

A That is with respect to the taxes.

Q THE CHAIRMAN: That is what I meant, you do get that back?

A Yes.

Q MR. HARVIE: After the account has been closed, I take it, for a couple of years, which might mean carrying it for a long period of time.

Q MAJOR LIPSETT: Does that mean that you have to be out the money for two years before you can get it back?

MR. HARVIE: It is longer than that.

WITNESS: They do not get it back until it is definitely confirmed that the account is out of business and there is no chance of collecting it?

Q MAJOR LIPSETT: After two years, or could you get it earlier than the two years?

A Sometimes it does not come in ----

MR. HARVIE: Each individual bad debt account, I am informed by Mr. Bronsdon, is dealt with but we carry it for two years after there has been no item of debit or credit in the account. If we carried it for two years and nothing has been paid on it, then it is adjusted with the Government but so long as some payment is being made it is carried and keeps on being carried indefinitely.

Q MAJOR LIPSETT: But supposing it was considered bad at the end of three months, would you

not get your money back then?

MR. HARVIE: No, not until after the end of two years.

MR. FRAWLEY: You have no way of agreeing with the tax department that it is bad and always will be bad, and get your refund then?

MR. HARVIE: No, it is just an arbitrary two years.

WITNESS: The next is a breakdown of the total marketing expenses expressed in cost per gallon.

Delivery Expense	20,546.44	Cost .13 per gallon
Barrels and Drums	14,600.02	Cost .10 Per gallon
Salaried Bulk Stations	50,503.07	Cost .32 per gallon
Commission Stations, that is Commission Agents	337,967.82	Cost 2.13 per gallon
Management	35,986.88	Cost .23 per gallon
Salesmen	47,614.31	Cost .30 per gallon
Service Stations	22,651.23	Cost .14 per gallon
Office Staff & Expense	66,256.93	Cost .42 per gallon
Other Expense	74,268.60	Cost .46 per gallon
With a total of.........$670,395.30		
		With a Cost of....4.23 per gallon

Q MR. COTTLE: Mr. Miller, why is the $670,395.30 different from the previous page, is the one supposed to be an analysis of the other?

A Well, your total there is $610,808.37 and you have your overhead, Head Office, and departments shown there, administration $59,586.93, as we show it on the first page, which makes the total of $670,395.30.

A. H. Miller

The next page is cost per gallon on basis of gallons serviced by each specific feature or on total gallonage handled where specific features not applicable.

Delivery Expense	.53	x
Barrels & Drums	.09	
Salaried Bulk Stations	2.23	x

Those points I may say are Calgary and Edmonton.

Commission Stations	2.49	x
Management	.23	
Salesmen	.30	
Service Stations	1.66	x
Office Staff & Expense	.42	
Other Expense	.46	

In other words those items marked "x" are on actual deliveries and the balance is on the total gallons sold.

Q MAJOR LIPSETT: Mr. Miller, have you somewhere in the record the corresponding figures for the earlier years, to that 4.23 cents?

A Yes, I am going to give you them all here for the ten years.

Q I see them in this graph for Manitoba but they are not in the Alberta graph.

A Yes, I am going to give you ten years there and averages for five and averages for 11, which I think is a better picture.

Q Yes?

A The next sheet covers the

breakdown of the marketing costs for the year 1938; salaries and wages, delivery expense, $6,873.84; salaried bulk stations $19,049.29; management $24,357.42; salesmen $21,689.24; office staff and expense $51,005.73, making a total of $122,975.52.

The next item, commissions, commission stations, $264.056.41, giving a total of the same amount.

Donations $962.70.

Exchange $3,858.98.

Fuel, Water Power and Light, salaried bulk stations, $3,254.48; office staff and expense $918.78, making a total of $4,173.26.

Legal expense a total of $3,693.43.

Moving Expense, that is employees moving, $280.08.

Paint and repairs, delivery expense $3,245.98; barrels and drums $6,921.97; salaried bulk stations $1613.57; commission stations $3,274.29; service stations $14,641.81; other expense $6,063.79, making a total of $35,761.41.

Postage and Excise, salaried bulk stations $42.70; commission station $4,185.50; office staff and expense $42.70, a total of $4,270.90.

Products used in operation, delivery expense $3,055.04; commission stations $3,345.03, service stations $10,618.80; office staff and expense $2,044.56, making a total of $16, 008.39.

Stationery, under other ex-

pense, $5,067.91,

Rent paid, commission stations $3,345.03, service stations, $10,618.80; office staff and expense $2,044.56, making a total of $16,008.39.

Sundry----

THE CHAIRMAN: Do you think it is necessary to read all this, Mr. Harvie.

MR. HARVIE: Well I think possibly not, unless there are some items that Mr. Miller just wants to refer to.

THE CHAIRMAN: To draw particular attention to.

WITNESS; There are none here, sir, unless somebody would like to have them. I have given them a heading, this is really a break-down in two ways, I might give you the total picture there and that is delivery expense was .53 cents per gallon, barrels and drums .09 cents per gallon; salaried bulk stations 2.23 cents per gallon; commission stations 2.49 cents per gallon; management .23; salesmen .30; service stations 1.66; office staff and expense .42 and other expenses .46, which gives a grand total, that is the total marketing cost rather of 4.23 for the year 1938 in the Province of Alberta.

Q MR. HARVIE: For the purposes of possible comparison with other statements, Mr. Miller, I notice you include insurance as one expense here?

A Yes.

Q Can you give us the marketing cost as set out here less insurance and interest charges?

A What are you referring to there.

Q The statement you have just read, it is something possibly you will have to work out and file but I think it might be interesting to know that and it should be on the file for comparison purposes?

A You mean with that out?

Q Yes.

A Well, if we take out our insurance and debenture interest charges our total cost would be 4.12 cents per gallon as against 4.23 cents per gallon.

MR. HARVIE: Might we have just five minutes, Mr. Chairman?

THE CHAIRMAN: Yes.

(An adjournment of 5 minutes was here taken.)

THE CHAIRMAN: Just so as to place it on the record, after discussing the matter with Counsel, we think that for the time being at any rate during this hot period, that this Commission will sit from 9 until 1 o'clock instead of from 10.30 to 12.30 and 2 o'clock to 4 as heretofore. All right, Mr. Miller.

WITNESS: We now come, sir, to the marketing costs in the Province of Alberta for the years 1928 to 1937 and I thought you would be interested in the details of those for that period and I think further that you might be interested ---

Q THE CHAIRMAN: What Page is that, it is Exhibit "468" you are speaking about?

A Yes, and that page there, sir, (indicating), I thought in addition to this that you might be interested in the ten-year marketing costs, the British American marketing costs for the three western provinces which

we will be glad to let you have also afterwards.

Q MAJOR LIPSETT: These which we have are just Alberta?

A That is Alberta. These costs to start off in the year 1928, the first column, is the total consumption of taxable products in the province for 1928 were 40,898,000 gallons; the amount refunded was 11,000,000 gallons; car registrations at that time, in 1928, were 88,398 cars.

Q MAJOR LIPSETT: What do you mean by "gallonage refunded", Mr. Miller?

A That is the refund to the consumer of taxable products used for agricultural purposes.

Q Is that 11,000,000?

A That is right, sir.

Q MR. HARVIE: That is an arbitrary figure for the year 1928?

A Yes, I say so there under the item of "c" "an arbitrary figure of 11,000,000 was chosen as basis since there were no refunds in 1928."

And then under "D" "refunds commence June 1st, 1929, hence this figure is for 7/12ths of one year."

The total amount of marketing expense for the year 1928 was $431,938.21; the same marketing expense exclusive of bad debts and drum write-offs was $401,593.11 and the sales of all products, tank wagon, that is British American sales, were 8,060,808 gallons; our costs in cents per gallon for doing business

that year, 1928, were 5.36 cents per gallon. Therefore, we take the year 1928 on the basis of 100% all the way through and we come to 1929 when the sales went up to 123% or a 23% increase. That is, the total consumption was 50,208,000; the gallonage refunded was 6,597,000, which was 60%; car registrations went up to 112%, being 98,720; the marketing expenses for 1929 were $586,578.70, which was a 36% increase and excluding bad debts and drum write-offs was $551,688.45, or an increase of 37%; our sales were 10,166,520 gallons, being an increase of 26% and our costs per gallon increased 8% to 5.77 cents per gallon.

Q MAJOR LIPSETT: Now with that figure, the gallonage of 6,597,000, would that have to be increased by 5/12ths to make the complete year, I see the note is only for 7/12ths of the year?

A 7/12ths of the year because the refund commenced on June 1st, 1929.

Q To get a comparable picture for the previous year, would that not have to be increased by 5/12ths?

A You mean 1928, sir.

Q Yes, to get a comparable figure with 1928, in other words if you take 1928 as 100%, 1929 would be 60 plus 5/12ths would it not?

A Of course, 1928 there is an arbitrary figure.

Q Yes, but 1929 only represents 7 months?

A Yes, that is right, 7/12ths. It might be reasonable to make that adjustment.

A. H. Miller

Q I do not suppose it will matter but it would keep the picture more accurate?

A Yes. Then in 1930, the consumption went up again another 3%, 51,676,000 gallons; the refund that year was 12,525,000, which was an increase up to 114%; car registrations reached its peak in 1930 being 101,119, registration, which was 114%; our total cost that year was $638,145.77 and that gave us a percentage increase there of 10%, up to 146%; excluding bad debts and drum write-offs was $556,153.11 making a percentage 141%; the sales were 10,201,950 gallons which was an increase of 1% and our total cost per gallon was 6.20 bringing it up to 116%.

(Go to Page 11,128)

Q MR. HARVIE: Just on 1930, it would appear where you reached the peak of your bad debts and drum write-offs, there is a 10% difference there which is possibly part of the explanation for the high cost of marketing?

A Quite right.

Q And in that item of 6.20¢ there would be a considerable write-off for bad debts?

A Yes.

THE CHAIRMAN: Just say that again, please, Mr. Harvie?

MR. HARVIE: In 1930 under the total amount of marketing expense, you will note that it increased over 1929 10%, from 136 to 146%. You will also note that exclusive of bad debts and drum write-offs, there was only a 4% increase, that is, from 137% to 141%, which I think indicates that there is a very heavy loss on Accounts Receivable?

THE CHAIRMAN: Yes.

MR. HARVIE: Which brings the cost of marketing for that particular year high in view of it being the peak year in volume.

THE CHAIRMAN: You are profiding us with a statement anyway in connection with that, or does the Witness who is to follow?

A Do you want that for ten years?

Q You are just giving it for one year. Well, just whatever you think wise. I want to get the picture as well as we can, and I look upon it quite seriously myself. You say about 1929, as I am seeing it at the moment, you start doing some banking?

MR. HARVIE: Yes, that is the year. I just learned that our statement is being prepared on the five-year basis, but we will give some consideration to the ten-year basis.

THE CHAIRMAN: I think it gives us a better picture.

A Mr. Bronsden had figured on the five years, but we will see what we can do with the ten-year basis.

MR. COMMISSIONER LIPSETT: Your point here, Mr. Harvie, is there was an increase of 10%, from 136% to 146%, and of that 6% is due to writing off bad debts.

MR. HARVIE: That is the inference. I think that is a fair inference.

A It is bad debts and Accounts Receivable and drum write-offs. These ten-year figures give you a very clear conception of the fluctuation in those years, and I think they are very important to you.

Q There is a peculiar thing about those three years, your gallonage goes up each year?

A Our gallonage went up each year. It went up 26% in 1929 over 1928. It went up 1% in 1930 over 1929.

MR. HARVIE: 23% in 1929 over 1928?

MR. COMMISSIONER LIPSETT: Notwithstanding that increase in volume, your cost in cents per gallon went up?

A That is due, Sir, to Accounts Receivable. In other words, it was a bad year, and I imagine that is made up by the bad debts and drum write-offs during that period. In other words, we increase our gallonage and our cost of doing business was increased due to bad debts and other losses we sustained due to adverse conditions that year.

Q You took bigger losses?

A That is right, Sir. Then again in 1931 the total consumption went down. It went down 20%, 43,478,000 gallons. Gallonage refunded also went down from 114% to 92%, being 10,071,000 gallons. Car registration went down from 114% to 107%, being 94,727 cars registered in that year.

Q MR. COMMISSIONER LIPSETT: Just on those figures, why would the gallonage refunded in that year, when your total was 43,000,000, why would that be less than the gallonage refunded in 1928 when the gallonage was only 40 odd million?

A Because there was a 20% decrease in the general consumption in the province, and as the farm business then was about 60 to 65% of the total consumed, and there was less used by the farmers and less refund claimed by the farmers.

Q You do not think there might be an error in that estimate of 11,000,000 in 1928?

A No, Sir. These figures that are given you except for 1928 and 1929 are actual.

Q Yes, but the 11,000,000 in 1928, the gallonage refunded, I gather that is an estimate?

A That is an arbitrary figure there.

Q I was just wondering if that is correct in view of the experience in 1931, 1932 and 1933, when the gallonage was about the same?

A In 1931, 1932, 1933, 1934 and 1935, and right through to 1937, they are actual refunds.

Q Yes, I am quite satisfied with the accuracy of all the figures excepting the first figure in 1928 which is put

at 11,000,000, and which is an estimate or an arbitrary figure. Do you think that figure is correct in view of the experience of all these other years? For instance, in 1931, it goes up 3,000,000, but the gallonage refunded goes down 1,000,000 in the actual result?

A That refund, Sir, to the farmers, will fluctuate each and every year according to your crop conditions. Now, for instance, that year, the 43,000,000 gallons in 1931 as against 41,000,000 gallons in 1932, there might have been more consumption for other uses other than agriculture.

Q You do not know exactly how the 11,000,000 gallonage refunded in 1928 was arrived at, do you?

A I will make a note of that, Mr. Commissioner, and try and give you an answer to that when I go into the Western figures. If it would suit the purpose better, we could take the arbitrary figure out for 1928 and use the figure when the refund started in 1929. The figures on from 1928 are accurate, those are the figures according to the records and the only thing that it will change, that is, the 11,000,000 will change, if it is out is the percentage figure.

Q I suppose really the important thing is the last column, cents per gallon. I suppose that is not really affected, Mr. Miller?

A Well, this really gives you a very clear conception of the variance we have mentioned this week, due to weather, crops and many things. In other words, it gives you that fluctuation over ten years of the total consumption, how it has gone up and down, and it indicates the write-offs we have had to make during the periods that have been adverse.

It shows how the car registration trend has gone. In other words, when things got bad in 1930, the car registrations dropped right off the following year 7%. In addition to that, it gives you our cost per gallon which fluctuates with it.

Q Insofar as this gallonage refunded is concerned, we have the actual figures for every year except one?

A Yes.

Q THE CHAIRMAN: Prior to 1929, did the farmer, speaking generally - I suppose there would be the odd exception - but speaking generally did the farmer pay cash for his oil?

A I would say yes before 1929 generally in the West, there was very little credit at all. The farmer either had the money, or if he had not got it, he was able to go to the bank and get it freely. Farmers used to be able to walk into the bank and ask for a couple of hundred dollars and they would get it by signing a note. And that was all that was necessary before 1929. I think you will find, Mr. Chairman, very seldom did the bankers before 1929, and I believe for several years before 1929, even ask a farmer for security unless the loan was a large one. I speak now of the temporary requirements of two or three hundred dollars. And the man used to operate on that class of credit.

Q I thank you. Well, we are delaying you with this sheet?

A In 1932, that was the year of our highest costs, the consumption went down again to 41,300,000 gallons. That was practically back to within 1% of the 1928 gallonage. The refund was the lowest as far as consumption used by the

agricultural industry was concerned, 9,171,000 gallons. Car registrations were practically at their lowest, 86,878, which was 98%. Our cost total, $615,715.46, which was 3% over 1931. After providing for bad debts and other losses, it was $515,958.60, being 128%. The gallonage that we secured was 9,077,570 gallons, which was 113%. Our total cost per gallon, at the peak, as I said, 6.78¢ per gallon.

Q MR. COMMISSIONER LIPSETT: That figure means, as I understand it, leaving out your losses for drum write-offs and bad debts, would it reduce your marketing cost from 130 to 128?

A From 130, did you say, Sir? What year is that?

Q 130 in 1931 to 128 in 1932?

A That is right, Sir.

Q And that increase in your cost in cents per gallon was due to the increased bad debts?

A Bad debts, and other losses, yes, Sir. In 1933, the gallonage was 40,324,000 gallons, which was 99%. Refund to farmers was 9,370,000 gallons or 85%. Car registrations went down 1%, 86,110 cars. The total cost was $523,279.69, being 121%. Exclusive of bad debts and other write-offs, they were $497,599.08, or 124%. Our share of the business declined in line with the decrease in consumption. We went down to 8,245,488 gallons, and our cost per gallon was 6.35¢. No doubt there were two factors entered into that. One was there was less write-off and the other was no doubt that we had curtailed somewhat in our staff by that time, in our pay-roll. In 1934 the consumption started to improve. It went up to 45,194,000. The gallonage refunded was also

greater, 11,050,000 gallons. Car registrations went up from 97% to 101% and our amount of marketing expense was $521,714.45. Exclusive of bad debts and write-offs it was $475,744.65. Our gallonage increased over the previous year to 9,556,906 gallons, and our costs went down from 6.35 to 5.46, bringing it down to 102%.

Q MR. HARVIE: That is almost in direct proportion to your increase in gallonage?

A That is right. 1935, the gallonage was increased up to 47,443,000. Or rather, the consumption increased to 47,443,000 gallons, which was 16% over normal. The gallonage refunded to farmers was 12,183,000. Car registration started to increase. They went up 5%. Our costs remained exactly equal to that of 1934, being 121% both years, and with write-offs it was $494,627.58 or 123%. The gallonage increased, and our cost per gallon decreased. In other words, our gallonage increased practically 800,000 gallons, and our cost per gallon went down from 5.46 to 5.04, being 94%. In 1936 we sold 54,388,000 gallons as the total consumption. The gallonage refunded to farmers was 14,370,000, which was 131%. The car registrations went up another 4%. Our costs went up another 8%, and exclusive of write-offs, it went up 7%. Sales tank wagon all products that year increased to 11,294,428 gallons, which was 140%, and our costs still declined to 4.94¢, being 92% of the total. In 1937 the consumption increased again to 65,736,000 gallons, being 161%. The refund was 19,474,000, being 177%. The car registrations went up another 4% to 100,434 cars. The total amount of marketing costs that year was $583,244.48, or 135%. After taking care of write-offs, it was 134%. Our

gallonage increased and went up to 13,219,013 gallons, and our cost per gallon went to 4.41¢, which was 82% of the total. Now, the ten-year total average there means that in the province there were 480,645,000 gallons consumed, and there were 937,093 cars registered. Our total amount of marketing costs was $5,578,989.02. After allowing for bad debts and other write-offs, it was $5,083,317.79. Our sales over that period in the province were 1000017,006 gallons. The average for the ten years therefore was 48,064,000 gallons consumption each year. The average car registration was 93,709. The average yearly marketing expense was $557,898.90. After allowing for write-offs, it was $508,331.78. The average sales we made per year from 1928 to 1937 of all taxable products were 10,001,701 gallons, which gave us a ten-year average of 5.58¢ per gallon. The first five years which I think were the toughest because of the conditions mentioned of the crop and the weather, the first five-year average consumption was 45,512,000 gallons. The car registrations were 93,968. The total marketing expense was $574,224.99, and after write-offs, it was $511,400.72. The average sales of taxable products over that first five years, was 9,468,466 gallons, and our average cost per gallon for the five years was 6.06¢ per gallon. The average for the second five years, the total consumption averaged 50,617,000 gallons a year.

(Go to Page)

Car registrations averaged 93,450. The amount of marketing expense averaged $541,572.81 and after allowing for write-offs it was $505,262.84. Which you will note in comparing the first five years with the second five were very much less than they were in the first. The average sales were greater, being 10,554,936, and our average cost in cents per gallon for that second five years was 5.14 cents per gallon. On the last page there we show the total for the eleven years, which I do not think I gave you, did I?

Q MR. HARVIE: No.

A The total there for the 11 years in consumption for the Province was 554,370,000 gallons. Car registrations were 1,042,892. Amount of marketing expense was $6,249,384.32. With write-offs it was $5,723,323.80. Sales All Products were 115,868,084 gallons. The average for that 11 years shows 50,397,000 gallons consumption. Car registrations, 94,808 cars. Amount of marketing expense was $568,125.35. After write-offs it was $520,300.16. Sales All Products, 10,533,462 gallons, with a cost of 5.39 cents. As I said, the first five years there it was 6.07 cents, and the second, for the second six years our marketing cost was 4.90 cents.

Q MR. HARVIE: At the top of that page your 1938 figure is on the same basis as the 1928 to 1937?

A Quite right.

Q MR. COMMISSIONER LIPSETT: I notice the gallonage refunded is not in there for 1938 on the top of the page. Is that not available yet?

A It might be now, Sir. I will have it put in in the morning

if it is.

Q I do not know, Mr. Miller, or Mr. Harvie, if the car registrations for 1939 are available yet.

MR. HARVIE: 1939?

MR. COMMISSIONER LIPSETT: Yes. The 1938 car registration would appear there as 105,799.

MR. HARVIE: Do you know, Mr. Frawley, whether they would be available up to the present?

MR. FRAWLEY: Oh, yes.

A They will possibly increase between now and the end of the year.

MR. HARVIE: It would not be a comparable figure because there will be a lot of registrations throughout the balance of the year.

MR. COMMISSIONER LIPSETT: It might be interesting to know whether car registrations were still increasing?

A I think they would be, Sir.

Q One would hope so, Mr. Miller?

A Well, that is what we do. We live in hopes.

Q THE CHAIRMAN: Taking your operating cost over quite a number of years, you say in the 10-year period you find your cost is 5.58 cents per gallon?

A Yes, Sir.

Q And as I am appreciating the effect of your evidence, taking it as a whole and trying to put it in a few sentences, you say that that is the essential cost; that you are marketing as cheaply as you can and you are refining in an economical and efficient fashion.

MR. HARVIE: This is purely marketing, these costs, and not refining. The refining figure will come later.

A. H. Miller.

THE CHAIRMAN: Yes, but I take it there is no doubt that some one for your company will say that you are refining efficiently?

A Yes, Sir, Mr. Bronsdon.

Q And economically, and as near as I acan see from what you have said, you do not hope, except for reducing salaries and reducing staff and reducing taxation, to bring about a reduction in the cost of gasoline?

A That is right, Sir. Taking the present price of raw materials and the present taxation and the present cost of operating and the present rate of commissions, and having regard to other existing regulations governing labor and hours that labor can work and having regard to every increase in the standard of living, which also calls for further increased pay-rolls, I certainly cannot see how a reduction can be made.

Q And except for a possible reduction in taxation you do not see how any reduction can be brought about?

A No, Sir.

Q MR. FRAWLEY: In future?

THE CHAIRMAN: In future.

A Not that I can foresee.

MR. HARVIE: Would not that be subject to any reductions say in free deliveries and freight rates?

THE CHAIRMAN: Oh, yes.

A I think, Mr. Harvie, that all things being comparable, that some of these items I mentioned will increase. Undoubtedly pay-rolls will be increased and if labor is going to work shorter hours and not going to take less money, the same amount of money has to be provided even though they work less, and that means an addition to the

pay-roll.

THE CHAIRMAN: What I am coming to is, there is one item that I do not know whether we are discussing it or not, or should discuss it or not, Mr. Miller, but you can tell me. That is all on the assumption that the cost of crude to you is what it now is. You are buying your crude in Turner Valley?

A That is right, Sir.

Q And you are buying according to the posted field price?

A Correct, Sir.

Q They are posted by the Imperial?

A That is correct, Sir.

Q Have you anything to say about the posting of the field price, your company?

A I do not think we have.

Q You follow the Imperial?

A We always pay the posted price in the field. We do that throughout.

Q MR. HARVIE: In all fields wherever you buy?

A Quite right. Even in Texas, where we have production of our own when we buy we pay the posted field price for the crude.

Q THE CHAIRMAN: Well, are we to be left with the impression as far as field price goes, you go at it blind and you take what the posted field price is and you pay accordingly?

MR. HARVIE: I may state, Mr. Chairman, that that question has already been suggested and we can answer that in connection with some other statement.

THE CHAIRMAN: As long as you are dealing with it, Mr. Harvie, all right. Then has Mr. Miller something more to submit, or do we move on to Mr. Bronsdon?

A I have not, Sir, unless you would like to have----

Q There are a few things you are still going to deal with. I think Mr. Commissioner Lipsett asked you to get some information and I think, perhaps, Mr. Frawley has one thing left outstanding.

MR. HARVIE: I think there are about nine or ten items we have to produce.

THE CHAIRMAN: At your convenience.

A I will get those cleaned up in the morning.

MR. FRAWLEY: It is understood these costs were presented to us for the first time to-day and have to be looked at by Mr. Cottle. There has not been any questioning of Mr. Miller about them. It is arranged that we see Mr. Bronsdon and get a lot of explanations and there might be some further statements.

THE CHAIRMAN: I may say at this time, so it may not escape us, we think you have done a tremendous amount of work and we think that you have endeavoured to present the picture from your point of view fairly, and we would like you to know we appreciate the trouble and expense that you have gone to to try and assist us to the extent that you have.

A Thanks very much.

MR. COMMISSIONER LIPSETT: Mr. Miller, just one other matter. Would you just give us in a little more detail your reasons for thinking that either a five or a ten year period would be fairer to take for your costs, having regard to this particular matter that I notice that your sales since 1928 to 1938 have practically doubled and what effect you think that should have on taking the picture that you suggest of a ten year or a five year period?

A I will try and figure that out, Sir.

(At this stage the Hearing was adjourned until 9:00 A. M. 13th July, 1939.)

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(Chairman)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 13th, 1939

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WITNESS:

Alfred Herbert Miller, recalled.........11,141

E X H I B I T S

EXHIBIT 471
Statement showing farm credit outstandings, British American Oil Company, Limited, in the Provinces of Manitoba, Saskatchewan and Alberta, as at December 31, 1929, September,1930, December, 1930, and as at this date applicable to the 1929-1930 business....... 11,151

EXHIBIT 472
British American Oil Company, Limited Statement of Marketing Expenses - Manitoba, Saskatchewan and Alberta (including depreciation) years 1928-1937...................................... 11,178

EXHIBIT 473
Graph showing bushels per acre and precipitation per inch, Alberta wheat yield, Alberta precipitation and the five year running average of the Alberta wheat yield from the years 1916-17 to the years 1937-38......................... 11,180

EXHIBIT 474
Graphs showing Long Time Average Annual Precipitation and "Drought" Years in the Prairie Provinces, records from 187 points varying from 61 to 6 years - information obtained from Meteorological Service of Canada, compiled by Research Department, Searle Grain Company, Limited.
Percentage of "Drought" Years in the Prairie Provinces;
Long Time Average Annual Precipitation..... 11,182

ALFRED HERBERT MILLER, having been recalled, examined by Mr. Harvie said:

Q MR. HARVIE: Mr. Chairman, there were some questions which were asked of Mr. Miller and I find he is prepared to answer practically all questions now and I might just go over them; the first was, is the Farmers' Co-operative Oil Company of Montana a refining as well as a marketing company and we are informed that the answer is that it is a marketing company only.

THE CHAIRMAN: We had better have it from the witness.

A From the phone inquiry I made yesterday it is a marketing company only but we will cover that fully in the complete brief on the marketing and distribution of the oil industry of the State of Montana which we are preparing and will submit through Mr. Harvie to this Commission.

Q MR. FRAWLEY: That would be satisfactory and if there are any more questions like that where Mr. Miller is just stating the result of a phone conversation, unless there is some other purpose, we can wait until they make the complete submission.

THE CHAIRMAN: You will have some information and we may want to ask questions about it, no, I think, carry on.

Q MR. HARVIE: The second item was we were asked to add to Graph 10 (B) the 1938 figures.

COMMISSIONER LIPSETT: That is the large volume of Graphs?

A That is the Alberta figures in comparison showing yearly sales of taxable products.

THE CHAIRMAN: Exhibit "444"?

Q MR. HARVIE: In Exhibit "444".

A The British American Oil Company's percentage for 1938 of the total consumption was 17.43%; that is according to the taxable figures which we have; the miscellaneous companies, that is all companies exclusive of the major companies, was 32.21%; in other words it decreased slightly in 1938 over 1937.

Q The next item was ---

Q MAJOR LIPSETT: That does not necessarily mean that you had less total volume, Mr. Miller?

A No, sir, that is our percentage of the total consumption. We had an increase in gallonage but our percentage of the total went down slightly, went down slightly.

Q MR. HARVIE: The next was information re Montana pooled freight rates......

Q MAJOR LIPSETT: Just before that, if I may, Mr. Harvie, the 1938 figures in that 10 (B) of taxable sales would those be in the same graph?

MR. HARVIE: Those will have to be filed later. We are waiting for word from Edmonton on that.

Q MR. HARVIE: The next thing Mr. Miller was asked or agreed to supply information in connection with pooled freight rates and that will be filed at a later date?

A That will be shown in our complete picture which we will prepare on Montana marketing and distribution.

Q The next item is, can jobbers in Montana take deliveries in trucks as well as in tank cars?

A Our information on that is definitely "yes", tank wagon deliveries to jobbers at the same price as tank cars which will also be reaffirmed in the statement we are preparing with maps and charts covering the Montana operation.

Q The next, Mr. Miller was asked to file on behalf of the Company a considered view as to the policy of selling to farmers at an f.o.b. warehouse price?

A Our view is that it would be more satisfactory to have one price f.o.b. warehouse for farm deliveries, providing the authority or government agency would enforce compulsory elimination of free delivery; in the event of this not being possible, two prices, one for delivery and the other f.o.b. our warehouse may be advisable and it is our intention to establish same in the future notwithstanding the probability of increased costs on individual deliveries; in other words, I am afraid that, while deliveries are getting smaller to the farmer each year, that is the capacity, the total gallonage delivered to each individual farmer is getting smaller, there is more by f.o.b. the warehouse; in other words, a larger percentage f.o.b. the warehouse and the other balance wanting delivery in certain seasons of the year, means possibly added costs on those delivery charges either to ourselves or to our agents inasmuch as they have to maintain equipment and suffer depreciation on equipment whether it is used or not.

Q Mr. Miller was asked by Mr. Frawley to supply the Texas Company's posted tank wagon, tank car price, and that will be included in the Montana figure. Mr. Miller you -----

THE CHAIRMAN: Who is filing your Montana picture. You see if it is just perhaps that you hand it in, while we do not for a moment say that it is not without benefit, but you would be the first to appreciate it has not the value of being put in by a witness who may be examined upon it.

MR. HARVIE: Yes, I understand that, Mr. Chairman, and I think when this picture is complete we might take it up with Mr. Frawley and then we will decide which is the best way of dealing with it. If the facts are not controversial that may be all that is necessary.

THE CHAIRMAN: Oh quite, so long as Commission Counsel says there is no controversy over those we would be disposed, unless we have some special reason for not doing it, to accept it but where it is something which is open to doubt a filed statement is of little value where there is no one who justifies it or that submits to cross-examination upon it.

MR. HARVIE: If it is proper that there should be some person to present it, we will do so.

WITNESS: I think it is an important picture, Mr. Chairman. It is a big picture, something which we cannot get over night and there is a lot of information necessary and it is my intention to prepare that and see that it is authoritative, right up to date

and if you deem it is important enough to the Commission, and we think it is for that matter, I will be very glad to make the trip to present it.

THE CHAIRMAN: That is a very fair position to take, Mr. Miller.

Q MR. HARVIE: You were asked, Mr. Miller, to present the Company's view on the suggestion of the Government taking over the entire distribution system throughout the province?

A Well that is such an important question that I would like to have the opportunity of developing that question with my principals at Toronto. My own personal views are that the Government should stay out of business, particularly the oil business. There are many illustrations where costs to the consumer have increased where the Government have gone into business but as I said, I would like to have the opportunity of giving it some careful study and we will be prepared to present that later, if that will suit the convenience of the Commission.

Q You were also asked to give your view on the effect of ordinary garages, of the larger oil companies, taking on the distribution of gasoline and along therewith granting other services usually performed by garages such as repairs, greases, etc.?

A Well in making a note of that, the first thought that came to me was that the industry's policy is to stay out of the retail business; as we covered in our volume 2, the industry have less than 10% of the retail outlets in the Province of Alberta or Western Canada as a whole; the 10% that the industry do own are leased to individual lessees

who conduct their own business in a manner they think fit and in addition to the gasoline and oil they sell of the company that they lease the premises from, they are perfectly free to add whatever associated lines they wish to, such as tires, batteries, spark plugs, miscellaneous accessories, etc.; at least that is the policy so far as our company is concerned.

Q MAJOR LIPSETT: You do not handle tires, for instance, yourselves?

A No, sir, we do not handle any accessories ourselves.

Q It is just a case where you have a retail outlet, of your lessee handling those on his own account?

A Yes; in other words, we lease any retail outlets which we own, we lease it to a tenant or lessee and he agrees to market our gasoline and oils and so far as his repairs and accessories and so forth are concerned it is his business. Now, I will add to that or qualify that by saying this, that a number of our lessees purchase tires either from the Dunlop or the Goodyear Tire Company, which is optional, because on a collective buying plan there is a better margin of profit on that. That also applies to batteries, although in batteries they have the right to buy either the Exide battery which may be 50% of our outlets do, our own outlets, that are operated by lessees but on the other hand, they buy batteries elsewhere and other accessories they buy just exactly as they like.

Q Do you do the buying of those particular commodities?

A No, sir, they buy direct.

Q You simply arrange the price?

A Yes.

Q Has the British American Oil Company any interest in that beyond assisting the agent?

A We secure an over-riding commission which amounts to 5% on batteries and 10% on tires; in other words, we feel that the tire company, if they are successful in being able to sell our lessees their tires, in view of the small rentals which we secure for the premises from the tenants, that we are entitled to secure an over-riding or a commission from the tire companies, which is very normal, in consideration of them having that representative in the premises in which to sell their tires but that does not affect the lessee in any way, the lessee does not lose anything by that; in other words, the lessee cannot enjoy the additional over-riding if we did not get it.

Q Well now, in view of the price that he gets it at, is there any cutting of prices between your lessees and the ordinary open garage?

A Well that is something, Mr. Commissioner, that is entirely up to the garageman or the lessee. As I see the picture in general, they appear to meet competition as they see it but there is no jurisdiction in that regard so far as we are concerned.

Q And so far as you know there is not any squeezing out of the ordinary garage man, by undercutting?

A I would say not, sir. I would think, so far as our stations are concerned, the amount of tires or any other

accessories that they sell is really a matter of pure convenience to the customers that are getting all their services, that is washing and greasing and lubrication, gasoline and oil at the stations and a number of those customers like to give that lessee or that tenant a tire sale if he requires one, or a battery sale if it might be because that operator is naturally servicing that customer, looking after his tires and so forth, during the time he is purchasing from that station and sometimes they feel obligated, therefore, to buy a tire from him if they are going to buy it and they are able to buy at the same price as they can at any garage.

Q I just thought I would like to have your views on the record on that, Mr. Miller.

A We have not thought it advisable to go into the accessories business.

THE CHAIRMAN: All right, Mr. Harvie.

Q MR. HARVIE: You were also asked to give your views as to how the $5\frac{1}{2}$ cent saving in pipe line rates is to be dealt with?

A Well we feel that this is a matter which should be dealt with by the Commission in its general recommendations after hearing and giving consideration to the complete evidence on costs in all departments.

Q THE CHAIRMAN: Well, undoubtedly we will but have you any views about it?

A Well, as I said yesterday, Mr. Chairman, I think we are getting so close to the line, speaking personally, so far as the marketing and other costs picture is concerned that we

could well do with that in our operations.

Q MR. HARVIE: In order to give you a fair return on your investment, is that what you mean?

A In order to take care of the variables which we have spoken of over the years; in other words, I think that we are down below our bottom today.

Q MR. FRAWLEY: Then, Mr. Miller, so that I will understand it, if you now have a saving of, and I will get that, of 5.5, if you now have a saving of 5.5 cents in the laid down cost of crude, you then have a larger refinery spread, that is obvious?

A You mean per barrell?

Q Per barrell.

A Yes.

Q If you now have a saving of 5.5 cents in the laid down cost of crude per barrel, you obviously have a larger refinery spread, whatever it may be in decimal points, that is correct is it not?

A Yes.

Q And you say in your opinion that spread should be absorbed by the refinery qua refinery and not be passed on, any part of it in the posted tank wagon price to the consumer?

A I do.

Q That is your considered opinion?

A I do, yes.

Q So that the net result of the pipe line inquiry as far as you are concerned, and the efforts which we put forth, I am not speaking facetiously at all, but the net result of the pipe line inquiry and the reduction in that pipe line rate, is that it should benefit neither the producer in

Turner Valley by being added to his posted field price nor the consumer by a reduction in the tank wagon price but that it should abide with the refiner as a refiner definitely and that is the end of it so far as you are concerned.

A I believe that our refining costs and other costs which will be more clearly shown by Mr. Bronsdon would indicate to me that that is necessary in our operations. If there are reduced freight rates and other fixed charges which we have today, that would be a different thing. I think that naturally could be and should be passed on to the consumer.

Q MR. HARVIE: There were four other questions which I think, Mr. Chairman, are all answered in one statement and I will read the four questions. The first was, was the financing of the farmer prior to 1929 and 1930 a function of the Bank and if so why the change and when the change became effective, with a copy of the statement, you asked us to file a statement as to the practice in subsequent years and then along with that we were asked to file a statement of the additional capital required since 1930 to carry the credit operations previously carried by the Banks. Then, how much of the $4,000,000.00 credit referred to in Volume 3 applies to Western Canada and also by Provinces individually and also how much of the $1,800,000.00 referred to in the evidence is uncollected, of the $4,000,000.00 credit, granted and outstanding at the end of 1930, still is outstanding and how it is distributed between the provinces?

A The statement submitted regarding farm products is as follows -----

THE CHAIRMAN: We will file that statement as Exhibit "471".

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "471".)

WITNESS: The first paragraph shows the provinces, being Manitoba, Saskatchewan and Alberta; the credit granted in 1929 shows, outstanding as of December 31st, 1929, in Manitoba $56,000.00, Saskatchewan $251,000.00, in Alberta $104,000.00, making a total outstanding at December 31st, 1929 of $411,000.00;

Outstanding at September 30th, or at the end of September, 1930, Manitoba $556,000.00, Saskatchewan $2,263,000.00, Alberta $518,000.00, making a total outstanding as of September, 1930, of $3,337,000.00. As I said yesterday, that was the period when money was not available to the farmers by the Banks or by the Government.

Outstanding as of December 30th--

Q MAJOR LIPSETT: Why do you take September of that particular year as against December in 1930?

A I am coming to December but I thought it would be interesting to know what was outstanding at that period because of the condition I spoke of and then I have December next to it.

Q MR. HARVIE: That was the peak period in September?

A Yes. Outstanding as at December, 1930, Manitoba $323,000.00, Saskatchewan $1,780,000.00, Alberta $360,000.00

total $2,463,000.00.

Outstanding at this date applicable to 1929 and 1930 business, Manitoba $91,000.00, Saskatchewan, $1,125,000.00, Alberta $130,000.00, making a total outstanding at this date from the 1929 and 1930 farm business $1,346,000.00.

Further we show the sales to farmers guaranteed by the Saskatchewan Government, years 1932 to 1938 inclusive, we extended $1,617,000.00 of which there is outstanding $89,000.00 represented by Treasury notes and $106,000.00 on open account at this date, making a total of $195,000.00 still outstanding carried by the Saskatchewan Government for farm relief in the Province of Saskatchewan. The figures given are the British American Oil Company's portion of the total. I have not got the total credit but I will say that every oil company participated and therefore their proportion no doubt according to the business they would do, would be in porportion to that which we have done, so in other words, the amount of credit being granted today in Saskatchewan must be very heavy, by the oil industry.

Q What would you say in connection with Alberta in subsequent years?

THE CHAIRMAN: Yes, I was wondering about that.

A Well, I can only give you, Mr. Chairman, an estimate in connection with that. I would say that it takes approximately $2,000,000.00 a year to handle the author-

ized and unauthorized credit combined in the three provinces.

Q For your Company alone?

A For our company and I would estimate that of that amount half a million dollars is in Alberta.

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A. H. Miller.

Q THE CHAIRMAN: Your best estimate right now is it takes 2 million dollars to handle the credit requirements of farmers in Western Canada?

A Yes, Sir, so far as we are concerned.

Q And you estimate of that Alberta has a requirement of----

A $500,000.00, Sir.

Q $500,000.00?

A Yes, Sir.

Q Would there not be a very considerable saving to the oil companies if you did not have to provide this credit yearly. It costs you money surely. It costs money to provide a credit of 2 million dollars?

A As far as losses are concerned they were shown in the write-off of bad debts on the statement we gave yesterday as the 10 years for Alberta, and I am going to - and I think you would be interested in a similar information for the three Western Provinces which I will submit in a few minutes. The fact remains, Mr. Chairman, that naturally it would be better if we could get to a cash basis. But I have never seen Western Canada on a cash basis yet for anything. I think Western Canada was built on credit.

Q Oh, quite so?

A And we are still building.

Q But, after all, you are not money lenders?

A No, Sir.

Q There are institutions that are in that business?

A I think it was unfortunate possibly that, as I said, up till 1929 the average farmer could borrow his requirements from the Bank, tentative requirements, and very little credit was given. I do think that maybe whilst we felt we were justified or we felt rather that we should assist when the

farmers ran into difficulty due to stringency of credit and could not beg, borrow or steal money, but after starting that policy why it seems to have grown and stayed with us.

Q Was that policy after the sudden withdrawal of credit of which you speak, was that common to all the Western Provinces?

A Yes, Sir. There was a tightening of money long before the financial crash. Apparently the Banks anticipated trouble and money was not available, that was before the crash in October, 1929. Of course, after that it was even worse. It was more difficult to secure credit.

Q Does that condition obtain to-day, you are still financing the farmer?

A It seems to be, Sir, as I said yesterday, a lot of that is very tentative, short term, a matter of two weeks or a month. But he seems to always want some assistance in order to get started with one operation or the other. Either the Spring work or the summerfallow or his harvest.

Q The situation is not relieved even to-day, as far as the Banks are concerned?

A I do not think so, Sir, not from the information we have. In fact, we are told, and naturally Banks are not, I do not think they can according to the Banking Act, I do not think they can take a mortgage on land for loans. I do not think the loan companies are doing very much loaning. They are more interested in collecting, I think, what is outstanding or has been outstanding for some time. The farmer, as I see it in Western Canada, is just getting by from season to season. If he puts in seed and he reaps a crop he is able to pay and possibly have a little money left to tide him over the winter. But if he is

hailed out or there is rust or cut-worms or grasshoppers or some of these other adverse conditions we have had to contend with he is possibly not able to pay until the next year. I will say that our credit is very limited, particularly in view of the experience we had in 1929 and 1930.

Q MR. FRAWLEY: Let me see if I understand it then. Exhibit "471" is intended to indicate what the result of your unfortunate experience in 1929 and 1930 was?

A That is the exact position.

Q Now, can you tell us how much new credit, for instance, you gave in the year 1938 in the Province of Alberta. Assuming there was not anything outstanding at all before 1938?

A The best we can do, as I said, Mr. Frawley, is to give you an estimate, and I think the estimate is conservative for Alberta and the west. Because, as I say, it is short term credit. It is tentative. The greatest percentage is non-authorized credit. In other words, an agent puts it out and we do not hear about it unless it comes to the time that he cannot collect it.

Q I have a little difficulty in understanding it. Why do you say $500,000.00 is the amount you have out in credit. Speaking again of 1938 only for the purpose of trying to get a year's operation in my mind?

A I would estimate that is a fair average in one year.

Q Have you no way of searching your records to tell us how much new credit was granted, authorized or unauthorized in 1938?

A It would be a tremendous task, Mr. Frawley, because of the way the credit is handled. If we had an accurate record

of every detailed transaction in our office we could give it to you in just a flash but we do not have that.

Q THE CHAIRMAN: So much of it is a case of the agent giving credit without your knowing anything about it?

A That is right, Sir.

Q And it is only when the debt is getting to be a bad debt that you hear about it?

A Yes.

Q The agent is asking you to relieve him of it or take a share of it?

A If the agent had not done that I do not know what the farmer would have done in the last few years.

Q MR. FRAWLEY: You have been speaking of unauthorized credit, that is credit the agent grants without referring to his superior officers, to the company, in other words, I take it?

A Authorized is difficult to obtain, just as difficult as unauthorized, Mr. Frawley.

Q Will you define it for us, what unauthorized means. See if I understand it. Unauthorized means credit that the agent gives on his own account without reference to the company?

A I cannot define it, but I would be conservative when I say that amount is essential and necessary as far as our company is concerned, which gives you the trend of the credit necessary as far as the industry as a whole is concerned, to take care of the operations of the farmer. I do not think I can do any better than that.

Q I am not making myself clear. It is not your fault. It is mine;

THE CHAIRMAN: The witness explained yesterday. He dealt with that very thing yesterday. He said authorized credit was where they had passed on the proposed credit allowance, the company had passed on it. The unauthorized was where the agent acted on his own. That is correct?

A Yes, Sir. Mr. Chairman, for instance, a man might decide at a certain agency or branch, after going into it with our supervisor in the territory, he might authorize it and say "All right, go ahead and take those 21 farmers, or take those 35 farmers, as the case may be, and take care of their requirements." And that would be classified as an authorized credit.

Q THE CHAIRMAN: And your company takes over the loss on that if it did occur?

A Yes, but to take the transactions being handled by us here or anything like that would be just a big task.

Q Where it is unauthorized the agent has no hold on you but yet as a matter of keeping him in business and doing the decent thing, you have absorbed considerable losses in that respect?

A Yes, Sir.

Q MR. FRAWLEY: And $500,000.00 is the amount of money you say you have to have, an estimate of what you have to have to take care of his authorized credits and that portion of the unauthorized credits which in one way or another you feel you have to accept, in other words?

A That is right.

Q That is an expense, because we are interested in it, it seems to me, as an expense. Where is that in your marketing spread. If it has already been covered-----

A Spread?

Q Yes, spread?

A You mean losses?

Q Losses, and the availability of the money, which I suppose is represented by Bank interest?

A The losses, Mr. Frawley, are shown on the 10 year statement of our marketing costs submitted yesterday for the Province of Alberta. We show there our marketing costs and then under the other heading we show marketing cost exclusive of bad debts and drum write-offs.

Q MR. COMMISSIONER LIPSETT: I just want to follow up that picture a little more. You build up a pretty substantial reserve of stocks for the peak harvesting period?

A Yes, Sir.

Q And when that time comes do you give credit to the farmer, you do not actually, do you, have to find half a million dollars, you give your stocks out; in other words, you carry the stocks so much longer but you have the additional risk, and you might take a loss?

A That is right.

Q You do not have to find the extra capital actually for the credit you give?

A No, the only capital we have to find is the capital to carry the inventories.

Q THE CHAIRMAN: Which you have?

Q MR. COMMISSIONER LIPSETT: Which you have anyway?

A Yes.

Q But you change it from your own stock to a bad debt risk?

A That is right.

Q Which, of course, may be very serious?

A Yes.

THE CHAIRMAN: I wonder if that statement,

Mr. Harvie, you say you are filing a statement showing---- we are getting so many statements---but did you refer me to the Exhibit in which you show what your loss was?

MR. HARVIE: Yes, I think so, Mr. Chairman.

A That is on the 10 years. That is on this, Sir.

THE CHAIRMAN: What number of Exhibit is that?

A On the 10 year marketing cost for the Province of Alberta. It also shows the write-offs.

MR. HARVIE: I think in Volume 3, Mr. Chairman.

THE CHAIRMAN: I just want to get it associated in my notes to what we are talking about now.

MR. HARVIE: We can give it to you actually for the year 1938 and each of the ten preceding years. It is in Volume 3 and the third last page.

A That statement there, Sir, including our marketing costs. The amount of our marketing costs in total and the amount of our marketing costs exclusive of bad debts and drum write-offs. So the difference between those two would cover the bad debts and write-offs.

Q MR. COMMISSIONER LIPSETT: Does that $6,019.00, does that include the whole of the bad debts in Alberta in 1938?

MR. HARVIE: As actually written off last year. There might some still be carried that might be lost.

MR. COMMISSIONER LIPSETT: I thought there was another figure of twenty-four or twenty-five thousand dollars?

A That was the credit for gas tanks and sundry credits.

Q Oh, yes.

Q THE CHAIRMAN: We have the figures on those drums separately, haven't we?

A Yes, Sir.

THE CHAIRMAN: All right, Mr. Harvie.

Q MR. HARVIE: Mr. Miller, just a point that has occurred to me in connection with this discussion, which will possibly give the Commission an idea of the practical working of these matters we have been discussing. You have through your evidence stated you have to anticipate the farm requirements in advance. Can you give them possibly just your experience as to what you are actually doing this year as far as making arrangements to supply the fall trade?

A Well, we have set our estimates this year at approximately 10 to 15% greater requirements than 1938 in the west. If anything happened to the crop why we are left holding these inventories and these committments, a lot of which would be carried over into 1940.

Q Yes?

A As I said yesterday, I think out of a possible inventory in Canada of about 11 million dollars, our inventories in western Canada are between six and seven of the total.

Q MR. COMMISSIONER LIPSETT: Does that mean at the present time?

A Yes, Sir.

Q In preparation for the harvest?

A That is right, Sir.

Q MR. HARVIE: What preparation are you making just at the moment in your organization to look after the harvest situation, such as the transfer of stocks to branches or agencies?

A Right now we are shipping as hard as we can ship to all

branches or all the bulk plants in the country in order to have sufficient stock there to take care of the demand when it comes.

Q In other words, you are filling up your country storage to capacity?

A Yes.

Q And if there should be any of these hazards develop in the meantime, that is one of your problems, and you would have to carry that possibly, or a large part of it?

A Yes. As a matter of fact, I will give you an indication of how that works out further. In areas where we have had bad experience year after year, maybe for three or four years, take the Goose Lake Line, for instance, in the Province of Alberta, it has been necessary to take that stock back to the refinery. In other words, it has depreciated and it would be necessary to take it back because it would not be fair quality, or have the quality rather, that would be necessary when it was required. It might stand in our tanks out there for maybe a year or two years and very little, if any, sold.

Q And that would not be a fit product to sell?

A No.

Q And you have to bring that back and re-run it?

A Re-run it.

Q MR. COMMISSIONER LIPSETT: That applies a particularly, I suppose, to farmers' gasoline, that is the lower grades?

A Yes, but it applies to all, really. It applies both to the farm requirements and the motor car requirements.

Q THE CHAIRMAN: It deteriorates?

A It will deteriorate. For instance, gasoline having 70 octane will lose anywhere from 1 to 3 points over a number

A. H. Miller.

of months, depending on weather and climatic conditions.

Q MR. COMMISSIONER LIPSETT: Would not your stocks of gasoline, that is for motor cars, would not that - it might take a little longer to dispose of that but would not that be disposed of as distinct from the farmer gasoline, which he would not want till the next harvesting season or spring season?

A It is hard to realize but there have been many points in the west where conditions have been such that a tank containing 12,000 gallons has stood there possibly, or a good part of it, possibly for two years. On the other hand, if conditions had been normal, there might have been 8 or 10 tank cars go through that tank in the one year.

Q I suppose in a lot of country districts the roads would block up and even ordinary motors could not go?

A Yes.

Q THE CHAIRMAN: Gasoline with 70 octane would lose 1 to 3 points in how long?

A It would depend on the climatic conditions, the way the material is stored, and temperatures. But I would say my experience has been it will lose that over a period of anywhere in 6 months, 6 to 8 months. That is not all as far as depreciation is concerned. There are other depreciations due to reactions taking place, of which I think the refinery experts could give you better information than I can.

Q MR. HARVIE: If you have any other thought on that line that might be of interest. There are evaoporation losses enter into that too, I presume?

A Oh, yes.

Q To summarize, you find, as far as your marketing end is concerned, you have to keep all your gasoline stocks fresh, more or less?

A It is very necessary and it is beneficial to the consumer to do it.

Q In the event that stocks do get stale it is a matter of expense bringing that back to the refinery and re-running them and shipping them again?

A That only happens, Mr. Harvie, in areas that stay definitely bad a for a long period of time.

Q Anything else on that point? You were asked to give your views on the soundness of the principle of undivided dealers and along with that, that if you considered that practice sound as to whether it might also be sound to, I think Mr. Commissioner referred to it as an undivided consumer. That is a contract consumer, a farmer contracting to take his entire supplies?

A Well, with an undivided dealer we have some control, or at least we are able to tell whether he does remain undivided because he is retailing his product to the consumer. In contracting with the consumer for his undivided requirements we could not make any check and I do not think that the average contract that might be made would be lived up to. In other words, they do not look at it from the angle of any importance. We think though that the undivided dealer should enjoy a better price than the divided dealer. In the first place, there is more economy on our part with a dealer who is undivided and there is more economy on his part. Instead of us

making, as we would do, to split accounts or divided accounts, deliveries of maybe 50 gallons, which is the usual amount of the delivery made to a divided account in this western country, 50 gallons, with an undivided dealer we would make deliveries of 200, 250 or 300 gallons. Therefore, our cost of making delivery alone is less than making deliveries in small quantities. The same thing applies right the way through the operation. If you make 5 deliveries of 50 gallons you have 5 entries all the way through the books, your accouhting and your credit and everything else is increased 5 times as against the undivided dealer where you only have the one entry for the same amount of volume. According to sales and marketing experts it is also considered in the oil industry, and possibly that is also true of other kinds of merchandising that a man marketing exclusively one line of product can do a better job and do it more economically than he can if he markets several. For instance, in the first place a divided dealer in the gasoline or oil business, he has got to have, if he is divided into two or three or four, his equipment and facilities that he has to buy would be increased by that amount. In other words, his investment is greater. A man might have an investment in gasoline equipment of $500.00 and he could sell say 25,000 gallons a year. And our experience is if a man has an investment of $1500.00 to carry two other lines of petroleum products we very seldom find he increases his gallonage but as a rule shows less sold than if he is 100%. That is my average experience.

Q MR. COMMISSIONER LIPSETT: I suppose there is less risk of dilution in the sense that he is only handling one product, and that is all he can sell to the customer and the customer knows what he is getting, perhaps?

A I think a dealer handling one product, particularly of a nationally advertised brand, is able to create greater confidence in his consumer customer than he is if he handles four or five different brands, many of which are unknown.

Q There is one point I do not quite follow, Mr. Miller. You explain it is more economical from your point of view and consequently you can pass on that extra cent. I follow that, because it means larger deliveries and so on. But you say it is more economical for the agent. Now, the position of the divided agent is that he is selling on a 1 cent less margin than the undivided dealer?

A I was not referring to any agents, Mr. Commissioner, I was referring to just the dealer, the retailer.

Q The dealer I was referring to, I am sorry. The divided dealer, he is handling on a 1 cent less margin than the undivided dealer. Now, you say that the undivided dealer can handle it more economically. Why should he not be able then to pass on that 1 cent to the public as against his competitior who is handling it at present on 1 cent less spread?

A He does pass it on to the public because, to illustrate that, in the average territory of the United States and Canada, if the differential is 3½ cents between the tank waggon and the retail as to the undivided dealer, there is only 2½ cents to the divided dealer.

Q Yes?

A As the retail price of both must be the same, in other words, they must be competitive, the consumer is receiving the benefit of that 1 cent and not the dealer. In other words, the dealer that is divided is penalized. He is not making as much money as the dealer that is undivided but the consumer is paying the same price.

Q Yes, but take two dealers, A and B in a country town, one undivided and the other divided. They must both sell to the public at the same price?

A Yes.

Q B sells, however, and is able to live on a margin of 2½ cents. Why should not your undivided dealer, who can, as you say, handle it more economically, why should not he handle on a spread of 2½ cents and give the 1 cent reduction in the price to the public?

A Well, I did not say that the dealer, the divided dealer, was able to live as well as the undivided dealer. I mean there are many things that enter into the profit of the dealer. The average dealer to-day does not consider so much his profit on gasoline. He is more interested in the profit he makes on the sale of lubrication, that is, lubricating oil, chassis lubrication, car-washing, repairs and sales of accessories associated with petroleum products. The average dealer, we find in Canada, is not so interested in the profit he derives from his gasoline. Many dealers are using the sale of gasoline as a leader to bring the customer to his place of business to sell other merchandise.

Q Is not that rather an argument in favour of him coming down to the 2½ cent margin, which his competitor the divided dealer has?

A Many of them do, Sir.

Q And passing that on to the public?

A Many of them do, Sir.

Q If he was doing that would he be selling 1 cent cheaper than his competitor?

A Yes, many do sell 1 cent cheaper, and some 1½ cents and some 2 cents cheaper than the others.

Q In the same town?

A Yes, Sir. I would estimate in some places, that in some towns in Canada that over 50% of the total gasoline sold is selling at what you might say less than what the average dealer considers is a fair retail price.

Q You mean that in a small village there might be two prices for standard gasoline?

A Yes, Sir. That applies more particularly in the larger centres but it also applies in the small towns. Many dealers, I think, take the stand that they also can have consumers on a 100% basis. They want to get all their business and in consideration for all their business-----

Q That is the undivided consumer?

A They sometimes give you a little better consideration than the man who just buys once in a while.

(Page 11,169 follows.)

Q MR. FRAWLEY: Will you elaborate on what you are saying to Commissioner Lipsett, what you mean I take it is that some retailers have two or three prices, that they will sell to the casual customer at what everybody else is selling at?

A That is it.

Q And then they will cut a cent and a half, and I think we have Mr. Plotkins openly admitting that that is how he does business?

A Yes, I think everywhere in the United States and Canada, because the industry does not control the retail price----

Q That may be so, but you do not know of any instance where the British American dealer on a corner on one street is selling at 25 cents and all the other British American dealers, Nevr-Nox gasoline I mean, all other dealers selling at 27 cents, if you saw a station of that sort you would do something about it?

A In Canada as a whole, Mr. Frawley, if there were four British American oil dealers in a town and only two other competitors, I have seen and know quite well today, that possibly the four would all have different prices instead of one price to the trade and that condition exists all over and still does and it is increasing every day.

Q I mean that is just one price to everybody----

A Different prices to everybody.

Q Different prices to everybody?

A Yes.

Q No stablization at all?

A No sir.

Q And where is that in?

A Anywhere in Canada.

Q In Alberta?

A Yes, right in Calgary today.

Q Where there are dealer service stations and garage men selling your products, and selling at a variety of prices?

A Yes.

Q Some on the standard, $4\frac{1}{4}$ cents spread?

A Some on the 3 cents, some $2\frac{1}{2}$; as a matter of fact in many places in Canada today the dealers are selling, where there is only a $3\frac{1}{2}$ cent differential between tank waggon and retail as considered by the dealer industry, by the dealers, many of those dealers are selling for a cent and a half profit. They are selling for 2 cents below what they consider the retail price should be although there is no fixed retail price.

Q Well we are doing a survey now of the retail service situation in Calgary and I would like very much if you or one of your officers would put our investigating accountant, Mr. Morrison, in touch with some of the B. A. dealers who are selling at a variety of prices, we are learning every day and this is something new?

A I would like to say this to you, Mr. Frawley, I think you are going into a task that is utterly impossible. You put out 100 men and you would not know what it was all about after you had had them out there for three or four months. I say definitely that there are prices varying all the way to 2 cents per gallon in the majority of points in Canada where dealers are selling identically the same products being supplied by the same company.

Q Do not misunderstand me, Mr. Miller, I am quite sure you are right in what you are saying, but one of the things that this Commission has to examine into amongst others, is the retail spread or the sufficiency of it?

A There is no retail spread, Mr. Frawley. The industry sell at tank waggon, both in the United States and Canada and what the retailer gets is his business. If he buys at 15 cents we have no control, we are not interested whether he sells at 16 cents or whether he sells at 20 cents but we do know this, that if his price above the tank waggon is too high then he does not sell any.

Q I realize that, you say it is not your business but it is the Commission's business fortunately or unfortunately, it is one of the things they have to inquire into and that is why we have people out investigating the retail spread, and in that we may do a very bad job or a very good one but all I say is I would like this investigator of ours to know of these cases where the major oil companies' dealers, retailers, are charging a variety of prices and that is all, I think it might be useful to him when he is endeavouring to investigate the sufficiency or otherwise of the spread, and that is all?

A I have no doubt, Mr. Frawley, when your investigator goes around that, the average dealer is of a timid nature or he thinks there is something wrong and he will probably tell your investigator he is getting $3\frac{1}{2}$ or 4 cents but if he runs into a dealer that has the courage of his convictions and will frankly state what the picture is, why he will

get a reply similar to that which I have given you. He might say "Well I am selling at 2 cents over wholesale" or "I am selling at 2½ cents over wholesale", but throughout Canada and the United States that condition, as I have explained, definitely exists and there is no one who can control it.

Q No, I am not concerned at the moment with anything but Alberta, and perhaps we could do a little better if you would perhaps suggest the names of some of these retailers and we will bring them here and ask them under oath?

A Mr. Frawley, I would not attempt to name any dealer because you might find it entirely different tomorrow to what I found it today and the only way that you could get that picture for yourself is if you put them all on the stand, then you will find exactly as I have told you.

Q That perhaps would be the ideal from one direction but we cannot put them all on the stand and I would like to find out for the information of this commission, to demonstrate definitely that what you say is so. Now I will not go any further into it, if you would be good enough to let me have or ask Mr. Harvie to let me have some B. A. dealers that you think are doing that?

THE CHAIRMAN: Or any other dealers.

Q MR. FRAWLEY: Any other dealer that you know of. I said B. A. because I thought you would know them better?

A I am giving you definite facts gained from actual experience and if necessary we can send you 100 vouchers from various parts of Canada, from various parts of Canada,

to prove that, including the Province of Alberta.

Q Look, Mr. Miller-----

THE CHAIRMAN: Mr. Frawley, the Province of Alberta is mentioned and vouchers are mentioned and that will give you the name.

MR. FRAWLEY: That will certainly give me the name and if you will let me have some of those we can then correlate it into the retail spread investigation that we are making. We are not doing it because we have not something else to do, it is something that the Commission has to pass upon?

A You asked me what the picture was and I gave it.

Q Quite so, and it is one thing that has to be looked into, the spread in Edmonton is 1 cent less than it is here, perhaps that is wrong in Edmonton and perhaps this is right or vice versa, the Commission has to have that put before them definitely and perhaps if you-----

THE CHAIRMAN: Mr. Miller says he will give you the invoices.

MR. FRAWLEY: That is fine.

Q MAJOR LIPSETT: Have you any suggestion, Mr. Miller, which can be made as to what would be a fair general spread; it is apparent that your company does not control it but it might be of interest to the consuming public if you have some idea of what a fair spread would be?

A I think the industry in Canada has gone through both, both Canada and the United States, I think retail prices at one time were posted or in other words dealers thought

it advisable to post the price that the industry posted of retail outlets when they were in the retail business, and I can say, Mr. Commissioner, that that did not work and I think the best practice is that which it is today, that is of free open competition. It is something which you can never control or never place, is the price situation of a commodity being retailed such as a petroleum product.

Q Following that up, Mr. Miller, supposing in a case where there is one British American agent that I am either living near or going to that place and I want Nevr-Nox gasoline and there is only one agent there and he is an undivided dealer, does that not leave it in his hands to charge me any price that he wishes, to charge the customer any price he wishes?

A I do not think so, sir, because he might be by himself at one spot but you have not got to go very far, not very far to go before you will find another place where there are several. It is possible where there is one dealer having the exclusive sale in any one town that he might be maintaining a fair differential or what he considers a fair differential over the tank waggon price, but they are very few and far apart.

Q I mean an excessive differential?

A Well if he did, I do not think he would do very much business; in other words you would only be there as a matter of convenience and when you are away from there you would fill up your tank elsewhere. We see that every day. A man, there is a price war or something on and products are cheaper in one city and the fellow is driv-

ing through and he knows it, why he finds he can save a couple of cents per gallon, and he has to go through there, he will just take enough gasoline on at the starting place to get him there and then he will fill his tank and save the two cents per gallon.

Q You think that ordinary competitive forces in the retail end of the industry are strong enough to give protection to the consumer?

A I have never seen the industry more competitive than it is today; as a matter fact it is what I would say is getting to be the survival of the fittest.

Q That is in the retail?

A Retail and wholesale.

Q MR. FRAWLEY: What does that mean when you say it is highly competitive, now I am thinking of the ordinary consumer who is not going to go into a service station and argue about it at all, he is going to go in and pay what price is demanded, perhaps one can best speak of one's self, I have never paid anything but the one standard price, 27 cents, in the City of Calgary for gasoline ever since the tank waggon went down the last time; now you know that, Mr. Miller, there must be something in your head when you say you do not know of anything more competitive and what is it?

A Maybe you are like me there, Mr. Frawley, you are too busy to shop and you go in and you pay the price that the man asks you.

Q Sure, that is what I mean exactly?

A But let me tell you this, I can give you an illustration

today which I think might be worth while, between Windsor and Detroit we have an interntaional courtesy credit card hook-up; in other words our courtesy credit card is honoured in the United States by five major oil companies in the United States and when our customers are in the States they can buy products or their requirements on their credit cards in any State in the Union. Now we have customers at Windsor that have that courtesy credit card facility and with the price war which has been raging in Detroit for the last three or four years, and it has become more intensified particularly in the last twelve months, we find that our companies in the United States that we are associated with in that courtesy credit card are doing a wonderful business with our customers from Canada; in other words they take our card and go over to Detroit and they buy their gasoline over there and all we do is carry the account.

Q Sure?

A Now that is just across the road, as you know. As I said, Mr. Frawley, I have never seen competition any keener, both wholesale and retail, in the petroleum industry, than it is in Canada today and that applies in every Province of Canada.

Q Now I do not suppose they sell many radios in Windsor either because they can go over to Detroit and buy one there?

A I do not know about radios but I do know about the petroleum industry.

Q What you mean is if I went shopping around Calgary to fourteen or fifteen service stations I might hit on some-

body who would sell me for less than the price, and that is what you mean?

A You might. I do not know whether you would, Mr. Frawley, but other people are.

MR. FRAWLEY: All right.

Q MR. HARVIE: Mr. Chairman, may I hand this telegram to the witness, it is possibly some information that we are waiting for. You were asked yesterday, Mr. Miller, to explain how you arrived at the figure of 11,000,000 gallons, that is the estimated refund for the year 1938 as referred to in Volume 3, Exhibit "468"?

A I should have been able to answer that right at the time. As I said, Mr. Commissioner, that figure is an arbitrary figure and possibly should not be shown in the column 1928, it may have been shown above that but we arrived at that figure as an average for the ten years and therefore we thought that it was a fair figure to put in there as a basis for 100%.

Q But it is just in there as a basis figure, as a starting point, and you took the average with which to start?

A There was no gasoline tax refund to the farmer in 1928 but we took the average for the ten year period, which in round figures was 11,000,000 gallons.

Q Then you were also asked to give possibly further views in connection with the fairness of using the five or ten year average marketing price other than any one year, have you anything to add to that?

A Well my recommendation on that is based on the facts that

we have submitted; first, the climatic conditions in Western Canada which result in whether we have a crop or no crop or half a crop; secondly the price that the producer secures for his agricultural products which are based on world markets; in other words, we have no control over either of those two things.

The next recommendation I make in connection with that would be if you would like to have them, is to give you our ten years' sales, cost, consumption, car registrations, similar to that which I gave you yesterday for ten years in Alberta, covering the three Western Provinces and that I think is a very interesting picture and one that I think illustrates more clearly than anything else that we do, our business rather does fluctuate and our costs fluctuate either up or down according to the conditions that prevail throughout the Prairies over which we have no control. I do not think that anything could illustrate it better to you than that ten year picture of Manitoba, Saskatchewan and Alberta which I would be very glad to let you have if you like it.

MR. HARVIE: We might file that as an Exhibit.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "472")

WITNESS: Now on that statement if I could just, I would like to make a few remakrs with regard to it, it shows the total consumption in the three Western Provinces collectively from 1928 to 1937. It shows in addition the refunds to the farmers for products used for agricultural purposes. You will notice that in

1928 there are 127,570,000 gallons consumed in the three Provinces. In 1929 it went to 159,907,000 gallons. In 1930 there was the peak year for the ten year period, reaching 164,659,000 gallons. In the percentage column you will note, starting out with 1928 at 100%, it grows to 125%, 129%, in 1931 it was 97%, in 1932 it was 79%, in 1933 it was 75%, it came back to 85% in 1934 and 90% in 1935 and 119% in 1936 and 114% in 1937. However it should be noted that as it shows on the bottom of that statement that there are heavy fuels used that were not taxable formerly, that have been made taxable in the last year or two. The car registrations you will notice also have fluctuated very considerably, but before I go to those I would like to refer you to the statement under the gallonage refund to the farmer, it started off with 57,000,000 which was 100% in 1928; it rose to 55 million in 1929; it rose to 60 million in 1930 and then if you will notice in 1931 and 1932 it went down until you got to 1933, only 34% was refunded to the farmers, or a total of 19,591,000 gallons. I mention that, Mr. Chairman because that ties in, or that statement I am referring to here, definitely ties in and shows the fluctuations due to the major industry in Western Canada which is agricultures. You then note that it starts to gradually increase until in 1937 the refunds were 64% of the total consumption. It also further illustrates to you, as I have said previously, that the consumption of the agricultural industry is getting less of a total. I pointed out that it was 85% at one time and now it is 50%. The next item shows our amount of marketing expenses

and further on marketing expenses exclusive of bad debts and write-offs; the next column it shows our total sales of all products, tank waggon, that is our direct business and you will notice that it ran in 1928, 35,473,673 gallons; it went up in 1929 and 1930 and then it started to go down and it has not even reached at the end of 1937 where it was in 1928; the cost per gallon of doing business at these three Prairie Provinces, started off with 1928 at 100%, you will notice it rose until in the five years, in five years, which was 1932, our cost of doing business increased 66% and the only reason for that increased costs was not a question of efficiency, it was simply a question of the conditions that have prevailed which I mentioned, over which we have no control.

In addition to submitting that statement I would like to submit with it a graph that I have made which will show you the position in the Province of Alberta over a 20 year period.

Q MAJOR LIPSETT: Before you pass from Exhibit "472", would it be possible to get the 1938 figures in another column there?

A Well for the three Provinces?

Q Yes, you gave them to us for Alberta?

A Will you make a note of that Mr. Harvie?

THE CHAIRMAN: The chart will be Exhibit "473".

(CHART PRODUCED HERE MARKED AS EXHIBIT "473")

WITNESS: That graph shows purely of Alberta. It shows the trend of the Alberta wheat yield, the Alberta precipitation and the five year run average;

in other words we show the wheat yield for that period and the bushels per acre for that 20 year period and then we take a curve which gives you the run average which is that heavy line dotted. You can readily see there the ups and downs, not only in the production of wheat but also in the moisture contents that was provided.

Believing that your experts will be particularly interested no doubt in the agricultural position of yield, prices, and what creates the yield, which is mainly moisture, I would like to submit also, I only have two sets of the long time average annual precipitation which occurred during the growing season, April 1st to July 31st inclusive, and the previous Fall August 1st to October 31st; in other words, giving the precipitation, mainly snow fall, from November 1st to March 31st not included; that record is from 187 points, varying from 61 years to 10 years, information is obtained from the Meteriological Surveys in Canada. You will note it shows quite clearly the position of the three Provinces so far as precipitation is concerned; in other words it is quite self-explanatory.

In addition to that----

THE CHAIRMAN: Let us deal with that, are you offering this as an Exhibit?

MR. HARVIE: Yes, how many sheets are there in the Exhibit?

A There are three sheets to that Exhibit.

Q MR. HARVIE: And what about these?

A The first I have dealt with, there are two other sheets and then there are two tracers.

MR. HARVIE: Exhibit "474" has really five sheets in all, Mr. Chairman.

THE CHAIRMAN: Are there five sheets there?

WITNESS: Yes.

(GRAPH PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "474").

(Go to number)

A. H. Miller

Q THE CHAIRMAN: You do not seem to have them superimposed very well?

A They could be better, I guess. The second sheet shows the percentage of drought years in the Prairie Provinces, years with less than a total of 8 inches of precipitation which have occurred during a long time period. These records are obtained varying from 61 to 6 years, from 187 points in the three western provinces, by the Meteorological service of Canada, and the Research Department of the Searle Grain Company compiled the information from that. The third sheet shows a long time average annual precipitation and drought years in the Prairie Provinces which occurred during the growing season, April 1 to July 31 inclusive, and in the previous Fall, August 1 to October 31 inclusive. These records are from 187 points, varying from 61 to 6 years. That information was obtained from the Meteorological Service of Canada and compiled by the Research Department of the Searle Grain Company. It covers the provinces of Alberta, Saskatchewan and Manitoba, and the Table shows the details of the long time annual precipitation for the number and percentage of years under 8 inches of precipitation, that is the drought years at each of the 187 points in the Prairie Provinces. In other words, that statement there gives you the actual figures, and on the left of that is an explanation of the Chart and the tabular statement. Therefore, Mr. Chairman, in answering that question as to why our costs should be considered over a ten-year period, as I have already said and submitted in the evidence and particularly in that Volume 2, plus the additional information mentioned this morning, and particularly

A.H. Miller

going through Volume 2, that is the best I can offer as our reason for suggesting that the costs be considered over a ten-year period at least and not any one year.

Q MR. HARVIE: You were also asked for a statement, Mr. Miller, as to the company's position in respect to accepting the present posted field price or as to your attitude towards the posting of that certain price?

A Before answering that question, Mr.Harvie, I would like to add to what I just said, and that is we do consider our operations as thoroughly efficient, and we are positive that the only control there are over our costs have been taken care of to the last degree. But the main factors, those which we have mentioned over which we have no control, are, and are only, responsible for any increased costs that we may have in any one year. Now, what was that Mr. Harvie?

Q The company's position in connection with the accepting of the present posted field price in Turner Valley, or its attitude to the posting of a price?

A Our views on that are that we follow the posted field price in Turner Valley carefully and we consider it fair, having regard to all the economic situations that enter into the setting of any such price.

Q You are talking now about the present price?

A The present price.

Q When you say you follow it, you mean you study it?

A We study it. We have studied it continuously since we became interested in the manufacturing in our own plants in Western Canada. Of course, we studied it before that, but now we study it more carefully than we did before.

Q MR. FRAWLEY: And your study will show you it is based upon $1.00 posted field price in Cutbank translated into different value, having in mind the manufacturing experience, brought to Calgary, taken to Regina, taken to the Imperial Oil Company plant at Regina and then brought back to the field, and that is how the $1.30 is arrived at. You know from your study that is how it is made up, don't you, Mr. Miller?

A I am just giving you our views, Mr. Frawley, as to what we think of the posted field price and the fact we study it, and as I said just now, we consider the present posted field price is fair.

Q We spend a great deal of time with Mr. McGrath about it and we know that is how it is made up.

THE CHAIRMAN: Now, I do not know that you should put that to the Witness. Surely Mr. McGrath distinctly said in the last analysis instead of assuming a price in Montana, that some directors of wide experience sitting in Toronto decided what they thought was right

MR. FRAWLEY: Well yes. I will put it of course fairly to the Witness. It is part of the Imperial Oil Company's corporate opinion as to the price the Imperial would have to pay if they went into Montana to buy their requirements.

THE CHAIRMAN: Very different from an actual situation. They were not buying. They just looked around - I do not recall Mr. McGrath's evidence verbatim, but it is my clear impression that they looked the whole situation over, and they are men of very wide experience

and they did what they felt was right. That is just the reason why I am inviting the British American, that follows them, to see whether they do so blindly. If they do not follow blindly, then what are their reasons for subscribing to this price. We have not yet learned from the Imperial, as I appreciate it, the real fashion in which that price is made, and that is what Mr. LeSueur is coming here to talk about.

MR. FRAWLEY: That is precisely what I want to do to the Witness, and suggest to him if he is following it he must be following it blindly, that is all. I wanted first to try and state to him as concisely as I could, but I did not do it very well, what the evidence was.

THE CHAIRMAN: You left out one important factor, that these directors of wide experience in the end more or less arbitrarily fix what is just.

MR. FRAWLEY: Mr. Harvie suggests that I let Mr. Miller finish his statement.

A As I say, Mr. Frawley, we consider the present posted field price fair and equitable having regard to those considerations and feel that if those factors are changed we will endeavor to see that the new price be posted to give effect to such changes. That is about the only views I can express at this time, Mr. Chairman.

Q MR. COMMISSIONER LIPSETT: It would be helpful, Mr. Miller, if you could approach this from an entirely independent angle and give us your views as to what the correct field price should be; and the lines on which you arrive at that figure or the reason. Why do you come to $1.30?

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A Being interested to the extent we are, our people have studied it and they consider the present price is fair. I am sure I am safe in adding this, that any time we feel that the price is not fair, we would raise enough Cain to either have it changed or we would make some other arrangements.

Q THE CHAIRMAN: I suppose you are in the position of Mr, McGrath. You say our executive is keeping a watchful eye on this, and they would change it if they thought it right to do so?

A We would bring pressure to change it.

Q Are you one of the officers who determines what the field price is to be, so far as your company is concerned?

A That is considered, Mr. Chairman, by the Manufacturing Department and the Marketing Department in a collective manner. If there is any further information you would like to have regarding it we will be glad to submit it through Mr. Harvie.

Q Through Mr. whom?

A Through Mr. Harvie.

Q You see we know precisely nothing as yet about the mechanics of arriving at the field price. Without minimizing the evidence we have heard, we do not feel we know how the field price is arrived at in Turner Valley, and it is the starting point?

A It is too big a problem, Mr. Chairman, and I am sorry that I cannot give you what you want on it. It is too big a problem for me to express an opinion on without it being considered from every angle.

A. H. Miller

Q Quite so?

A There are so many remifications in connection with it.

Q I am not wrong, am I, in the view, Mr. Miller, I put it to you because I am sure you have tried to give your evidence fairly and have considered that which you have said, but I can conceive your making many savings through efficiency and economy here and there, and making a life-study and getting the marketing division an absolutely efficient machine, running as economically as it can be run, and yet all your work be set at nought by the price of crude oil at the refinery door. If you saved a cent and if tacking on 2¢ or taking off 2¢ in the price of crude, your saving 1¢ does not mean very much to the public or producer, does it?

A You might be right there, Sir, but there are so many economic factors that enter into that ~~posted~~ field price. As I say, it is quite a big subject. I do know this, that naturally if the price is too high it cannot go far enough afield. In other words, you are going to curtail the distance that Turner Valley can be shipped?

Q And if it is too low, you are not going to get production except by the refinery companies, are you, the refining companies that are also producers?

A I would not think so. Suppose it was too low, possibly you would not get the investment made in drilling the wells at Turner Valley.

Q I do not press you further upon the point because you have made it quite clear that Mr. Harvie from your company should speak about it. Do you mean Mr. Eric Harvie?

MR. HARVIE: I thought he meant if there

was any information we could file after he has left that would be of assistance they would be glad to give it to me.

THE CHAIRMAN: What officer of your company, Mr. Harvie, could discuss with us the field price? You are certainly interested in the field price here in Alberta?

MR. HARVIE: I will have to find out and get that information.

THE CHAIRMAN: You have gone to such pains and trouble and I have no doubt a great expense to make a very excellent presentation, which Mr. Miller has started and which no doubt other Witnesses will continue. It would seem that that which to my mind is basic on the information I have thus far should not be ignored and left in the air. I would not suppose that would be the intention of your company. And the circumstance that you follow, after all is no answer at all because it would seem you would follow intelligently if you followed. You must know why you are following any given price, or why you would reject it.

MR. HARVIE: I will take that up with the company and see what we can do by way of being of further assistance on that.

MR. COMMISSIONER LIPSETT: It might be something that if you had studied and arrived at the $1.30 as an independent study of the situation - that there is also the possibility it may be something that you more or less accept just as you accept the railway rates. They are there, and unless you are being hurt in some way, you more or less accept them as established fact?

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A I am quite sure our people would not just accept them if they were. They have a lot of experience in the producing end of the business inasmuch as we have a producing company in the United States which is a solely owned subsidiary of ours. And this price, no doubt, in the field of Turner Valley was studied as I say by the production and the manufacturing and all departments from time to time. That posted field price, I am sure, is considered from day to day. But as Mr. Harvie says, we will try and let you have further particulars as to the study we make of it.

THE CHAIRMAN: You see we move into Montana after some price and we move into a field of mystery for some reason or another. In the end, so far as the Witness who spoke for the Imperial Oil was concerned, Mr. McGrath, we find that any figures which were used as a premise by him for arriving at the conclusions were assumed figures. Well, the field price is not an assumed price. It is not a hypothetical price. It is an actual price. Upon being pressed on that point, Mr. McGrath pointed out that this was determined by the senior directors or the directors in Toronto who were men of wide experience. Well, now, that is so, no doubt, they are men of wide experience, but we are not prepared to assume that they have not used that experience and acted wisely and we are not prepared to assume the other, either. We want evidence. We understand an officer of the Imperial is gracious enough to say, a senior director, that he will attend here and give us such information as he can to help us. We feel we should have the views of your company with regard to

the field price. After all, the field price if it is just what the traffic will stand in either direction, all right, let us know it, and if it is not, and if it is worked out by some process of reasoning in relation to other economic factors, let us know what they are?

A All right, Sir.

Q We do not feel we can close the books so far as we are concerned as a Commission without knowing about the field price and how it is arrived at; what the mechanics of it is; what is taken into account in coming to a conclusion, and how is it approached. In particular, how this particular price that exists here today is fixed upon. If you follow blindly, all right. That is all the evidence we want from your company. We know what you are doing. But if you do study for yourselves and only follow up to the point you consider is right, then we would naturally like to know how you arrive at it?

A All right, Sir, we will try and let you have it.

Q MR. HARVIE: There are just two other bits of information asked for that we are prepared to give. We were asked to fill in the 1938 figures on Chart 10 B and I think maybe it can be read into the record. This is in connection with the 1938 figures on Chart 10 B.

THE CHAIRMAN: Chart 10 B in Exhibit "444"?

MR. HARVIE: Yes.

THE CHAIRMAN: Are you asking to file it separately or put it in with the others?

MR. HARVIE: I think if you added it on the Chart.

THE CHAIRMAN: Is that satisfactory to you,

A. H. Miller

Mr. Frawley?

MR. FRAWLEY: Yes.

THE CHAIRMAN: You are appending it to Page 10 B of Exhibit "444"?

MR. HARVIE: Yes, Sir. Or we can just write the figures in on that Exhibit. It would be simpler.

THE CHAIRMAN: Perhaps during the recess you will put it in.

MR. HARVIE: Yes. Then there is this other figure on the last page of Volume 3, Exhibit "468", we were asked for the gallonage refunded.

MR. COMMISSIONER LIPSETT: In 1938?

MR. HARVIE: Yes, and that figure is 49 million............

THE CHAIRMAN: Will you put that in, too?

MR. HARVIE: Yes.

THE CHAIRMAN: And that will be all done?

MR. HARVIE: Yes.

MR. COMMISSIONER LIPSETT: Have I got that right, Mr. Harvie? The figure for 1937 was 19 million........?

MR. HARVIE: I will check that over at the recess if I may.

THE CHAIRMAN: He will put in the right figures for us.

MR. HARVIE: Yes.

THE CHAIRMAN: Anything more?

MR. COMMISSIONER LIPSETT: You were going to try and get the car registrations for 1939 up to date if that was possible?

A They would be available, I think. But Mr. Frawley would get

A. H. Miller

those quicker than we could. We only get them, Sir, at the end of the year for our statistics, but I think Mr. Frawley could get them from the Department to date.

THE CHAIRMAN: That is so, Mr. Frawley, you could get them more conveniently?

MR. FRAWLEY: Oh sure.

THE CHAIRMAN: Will you do so?

MR. FRAWLEY: Yes, I will, Mr. Chairman.

Q MR. HARVIE: In connection with the marketing costs in Volume 3, the figures as presented, or rather the distribution of the Head Office and similar general expense was allocated to Alberta on the basis of sales value. Mr. Cottle asked that that also be done on the basis of gallonage, and I am informed that the figures are practically identical. There will not be in excess of $1,000.00 difference, and I think that is all Mr. Cottle maybe requires. If anything further, we will be glad to submit it.

MR. COTTLE: Yes, that is sufficient.

MR. HARVIE: That is all I have unless you have something?

A No.

THE CHAIRMAN: We can do nothing more at the moment. It is just about recess time. We will ask anything we have to ask of Mr. Miller afterwards. We will take a fifteen minute recess.

(Go to Page 11,194)

MR. HARVIE: I believe, Mr. Chairman, your book has been amended with these figures so far as Graphs "B" is concerned. So far as the refund is concerned, the information we got over the phone was for the fiscal year, the Government fiscal year, as against all other figures which are for the calendar year and it will take us a day or two to get that. Mr. Frawley is getting it for us.

THE CHAIRMAN: So long as you undertake to have the amendments made.

MR. HARVIE: Yes we will.

Q MAJOR LIPSETT: Mr. Miller, there is an angle of this field price which I would like to get your views about. We have the Imperial picture, that the production end is done by a separate company to some extent that produces the crude oil for them and we have also so far had the picture that your Company directly has contracts with a number of producers, producing companies, which have been arrived at on a basis very often of helping to finance the completion of the well. I would like to get the picture of the capital that has been put into the drilling of those wells which you have the contracts with and the share or interest that the B. A. has in the profits and the revenues of those producing wells; to put it to you from this angle, it might be that the correct system would be to have an integrated industry producing a good deal of its own crude and refining it and marketing. But if that were the correct view it might also be said that the profits that that company,

like the B. A. should get, should be a reasonable profit on the whole operation and not, at all events that the profits on producing should come into the picture. Now, I would like in the first instance to get your views on that generally and secondly I would like to get information as to what your company derives out of the use, assuming the whole thing is integrated, to the extent to which it is integrate, including producing, marketing and refining.

A I think, Mr. Commissioner, that Mr. Bronsdon has that information or will be giving that information and he is to be the next witness for us. Is that right?

MR. HARVIE: Yes.

Q I did not know whether you would like to say something about it, Mr. Miller, or whether it was outside what you want to talk about, but I think it is important that we should know the whole picture?

A Mr. Bronsdon has that for you.

Q MR. FRAWLEY: Mr. Miller, I have just a few questions and whether you discuss them now or at some later date is unimportant so far as I am concerned, I would like, I would like you to tell the Commission what your consumer-customer arrangement is and the facilities which you have given to the commercial customer and the extent of that business, would you like to do that by filing a statement covering that?

A I do not quite get your point.

Q You have certain consumers which you call "commercial-consumers" and you supply them in tank wagon quantities, tank wagon facilities, which you either give them or they

have themselves, you know what I mean, these wholesale grocers, undertakers and anybody who has two or three units, you give them, you sell them gasoline ----

THE CHAIRMAN: Undertakers?

Q MR. FRAWLEY: Yes, even undertakers, anybody who has two units I understand can get a pump and a tank in his back yard and get gasoline wholesale from your company?

A Well he cannot get a pump and a tank, Mr. Frawley, unless he buys that pump and tank or any other equipment. Our dealers and consumers supply all their facilities for dispensing gasoline or lubricating oils. When we make delivery to the commercial consumer he receives a price in line with the price which we sell dealers, so far as Alberta is concerned.

Q Yes, that is the arrangement, I do not want to go too deeply into this, you say they have to buy, the consumer has to buy his equipment and you will enter into an agreement to sell it to him, will you not?

A We will sell him equipment in the same manner as we sell any other dealer if he wishes to buy it through us, as illustrated on the Agreement Equipment contract filed in Volume No. 1.

Q Yes, and would it be fair, would it be a fair suggestion or quite a wrong one to suggest that there is a certain amount of carelessness in the matter of collection of those amounts owing for equipment which is sold under those agreements?

A I can only say, Mr. Frawley, that our experience where we have sold equipment on a five-year plan at a cash

payment and the balance spread over perhaps 59 equal consecutive months, our experience is that they are fairly current and up to date; in other words, we soem to have no difficulty in collecting the amounts as contracted for under agreement.

Q I wonder if it would be a great deal of trouble to put that into an Exhibit, to put that into a statement, the number of these outstanding contracts whereby this consumer I am thinking of this principally now, in fact entirely, my question is confined to the commercial consumer.

A Consumer.

Q The number of these people who have your equipment, the state of the contract, how much is owing, what the original purchase price was and the extent to which any of them are in arrears?

A We will be very glad to do that.

Q Because it has been suggested that road contractors, that is another type of consumer, that gets his products, gets a tank and a service pump and that he will go out on a job and use the equipment for two or three months and when his contract is over the oil company goes out and picks up the equipment and no question is asked, you have heard tell of that being done I take it?

A I have and I will be very glad to let you have a statement covering the equipment contracts of commercial consumers' accounts.

Q Yes.

A The price contracted for and the position and the payments or the amount owing, if any, to date.

Q Yes. Now you have discussed, you have discussed the question of the service stations and perhaps quite sufficiently and fully; you take the position that your stations cost you a certain amount of money, that your service stations, which you in turn rent to a lessee, are bound to cost you a certain amount of money during the year, I mean the service stations that you first rent and then in turn rent to your lessees, and you call that a marketing expense?

A Any cost is a marketing expense.

Q So when you fail to collect or even to charge a tenant enough rent to pay for the rent which you in turn pay, in those cases where you do not own but rent, the taxes, you do not see anything strange in that, you call that simply a marketing expense?

A Yes. In the statement which I submitted in Volume 2 of, or Volume 1 rather, one or the other ----

Q You show that, the amount of it?

A I showed, I think, that the rent and taxes we pay as against the rent and taxes which we collect gave us about $283.00 more; in other words, we collected $283.00 more than we paid out in the year 1938. I also pointed out there that ----

Q Just let me stop you there?

A The cost per gallon ----

Q Yes.

A Including business at the service stations of which there are only a few, the only places we have service stations in the Province of Alberta are the city of Edmonton and

the city of Calgary, Banff and two other points outside of those two cities.

Q Yes?

A And all of which were listed and I think I said there or it showed in the statement that the cost of doing business through those stations was less than the cost of doing business through our bulk agency plants.

Q Now I see in a statement in Exhibit "468", Volume 3, that the expense, the filling station expense was $37,714.97, from which has been subtracted a revenue of $23,231.91, leaving an amount of $14,483.06, which would be called "filling station expense", now what is that expense of $37,714.97?

A Might I have my statement, it is in my brief case back there.

MAJOR LIPSETT: Where is that statement?

MR. FRAWLEY: It is half a dozen pages or so, they are not numbered, from the back. It is called "schedule of marketing expense in the Province of Alberta for the year 1938" and it is the second sheet of that.

A What page was that, Mr. Frawley.

Q Well it is the second page of your marketing expense for the year 1938?

A Filling station expense?

Q Yes.

A $37,714.97?

Q Yes?

A Less the revenue received is $23,231.91.

Q Yes?

A Leaving a difference of $14,483.06.

Q That is right, what is that expense?

A It is our costs.

Q That $37,000.00 -----

A That is the cost to us of the total business we did to those stations.

Q Cost to you but can you tell us something about what that cost is, rent paid out?

A Yes, that covers our cost in connection with land, buildings, miscellaneous construction, pumps and tanks and the equipment and miscellaneous equipment, all of which amounted to $14,289.41. That is an expense to us.

Q Well, is depreciation in there?

A Yes.

Q Then there is an item of depreciation in the very next group, service stations, $14,712.37, the very next, following right on there, under "depreciation, service stations, $14,712.37", the same sheet we were talking about, if you are looking for what I am looking at, Mr. Miller, it is the same sheet, the next group, depreciation, well, Mr. Miller, Mr. Harvie says ----

A That is general depreciation you see there, that is the general plant and branches and agencies.

Q But the next item?

A Service Stations?

Q Yes, $14,712.37, Mr. Miller, before you answer, Mr. Harvie has made the suggestion and he says Mr. Cottle has been talking to Mr. Bronsdon and Mr. Bronsdon is

going to prepare an analysis and reconciliation of those amounts so I will not bother you with the figures but I will discuss it with you very generally. You have a certain amount of expense at the service stations each year, I suppose, I suggest you pay rent to the landlord and you pay taxes and you pay insurance and in other places where you own, you have the taxes and the depreciation.an

A Taxes, depreciation, repairs, maintenance?

Q Yes.

A Painting and decorating.

Q Which all adds up to so many dollars, but it is the policy of your company, as with the Imperial, that you do not seek to obtain from the service station operator enought rent to cover those disbursements which you make, now it is only the principle ----

A Our objective naturally is ----

Q The disbursements which you make as a renter, Mr. Cottle corrects me?

A Well our objective is, if possible, to secure a return on our investment of what bank interest might be, say 5% or 6%, plus the taxes. That was our objective. During recent years that objective has not been sustained and the reason being, as I said this morning, that due to the free competitive condition which exists in the retail business we naturally are advised by our tenants from time to time that due to selling at low cost, meeting competitive conditions which are offered in that particular city or town, they cannot pay the rent that we would like

to secure and there is a case therefore, where we have to consider every one on its merits and we compromise or adjust accordingly. If those retailers were securing a greater margin of profit or in other words the consumer was paying more for his requirements, we would be able to obtain our objective which is a return on the investment plus taxes but as I said yesterday, there are other things, in addition to competitive situations such as meeting prices or selling at lower prices, and those are regulations that have come year after year, added regulations, particularly those governing hours of labor and salaries which have to be paid; in other words, when our service stations were built the majority were built several years ago and each year some change, due to the economic forces, had to be faced and as I say, we face those and adjust the position from year to year in the best manner we know how.

Q Well now, I say it is simply that it is the policy of your Company to not demand from the tenants of your service stations all of the disbursements which you in turn have to make?

A It would be our policy if we could get it.

Q I see. Now you said a moment ago, Mr. Miller, your policy was to get taxes plus interest. Now even taking it at that, that does not cover all of your disbursements in any event?

A No.

Q Then it is your policy to only seek to get, you do not

even endeavor to get any more than just taxes plus interest?

A As I said, Mr. Frawley, to give you a further illustration of that, we might have premises that have been giving us a satisfactory rent which would cover all our taxes and depreciation and other incidentals, then possibly we have been requested and after consideration deemed it advisable to make extensions to those premises and in due consideration of which we would receive further rent. That has been done and then as I said just now, due to the economic forces over which we have no control, we found in a year or so that that picture has changed again entirely and we might be back to a less rent than we secured for the original building.

Q Well, Mr. Miller, perhaps I can put it this way, what is in my mind, if I rent a residence from Mr. Harvie and then you became my tenant, I would have to get from you every cent of rent I was paying Mr. Harvie and even perhaps something else and I put it to you, that your service stations are not leased on any such basis as that, that you constantly and continuously and I think the analysis will show that in each and every station that you own and rent, there is something left over and above that, that your company has to carry, which you call an expense, I am only discussing the principle of it now, why do you operate in that way, why do you no demand from your tenant what the ordinary renter does in renting a premises?

A In the statement I submitted, Mr. Frawley ......

Q What statement is that?

A I showed, I think it is in Volume 1, I showed that the rental we received for our total service stations in the Province of Alberta was $22,631.91.

Q So that I can follow you, would you mind referring me to the statement.

A If you will look at your service stations' statement which I made, I think it is in Volume No. 1.

Q Do you mean the service station gallonage and costs, we have a total of 13 service stations in the city of Calgary, that one?

A That is right.

MAJOR LIPSETT: What page is that?

MR. FRAWLEY: It is not paged, Mr. Commissioner, but it is just immediately preceding the large map in Exhibit "1", I mean Volume 1.

A I show in that statement that the total gallonage sold to all service stations in the Province for 1938 amounted to 1,356,855 gallons and I show we received a rental amounting to $22,631.91, against which we paid out rent and taxes of $22,399.29, leaving us a difference of $232.62, above the rent and taxes paid.

Q Yes, and we are right back to where we started, I put it to you, you are still out your depreciation, your painting, your repairs, your insurance and a multitude of other items like that?

A We are, and I think, as I said Mr. Frawley, that those out-of-pocket expenses which you mentioned give us the cost per gallon of doing business to those stations

of, I think, 1.69, which I said was less than doing business through our agencies.

Q I understand that very well.

A And as I see it, I cannot see very much difference.

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Q I know, and I am only putting it to you, that - I put the blunt suggestion to you if the service station man cannot pay rent that the ordinary person has to pay then let him fold up, that is all.

A Well, Mr. Frawley, in answer to that if people, that is men leasing or owning, together with their house, are not making a living out of the service station, you can rest assured they will fold up.

THE CHAIRMAN: But you are not in the same position as an ordinary landlord. You do not want them to shut up, you want to sell your products?

A When we find some economic condition that prevails, and it is economy that settles or determines when it is satisfactory, there are many cases where we have folded up stations. In other words, if we find people cannot make a living then the thing to do is to close them up. We also think if a man is making a living then why close the place up and put those fellows out of a livelihood. They must be making a living; otherwise they would not remain open.

Q MR. FRAWLEY: There is a lot of talk about multiplicity of service stations and duplication of service stations. Now, perhaps there is nothing in it and perhaps it is just a myth?

A Maybe you are referring to this statement on the wall. There is one of the greatest exceptions that there is in this Province or in any other Province in Canada. Here you are on the Jasper Highway. When the British American built their station on Jasper Highway it was one of the first stations. And that highway, as you know better than I do, is a highway of some 30 or 40 miles, and

at that time there were very few outlets on that highway. In addition to that while you see the stations all jumbled up together on that particular Jasper Avenue you do not show where the restrictions that will not permit of service stations to go further south or north exist. In other words, if I remember correctly, there is a big residential area off Jasper Highway, which area is restricted.

Q That is just Jasper Avenue?

A Under ordinary circumstances in any city or town where restrictions do not prohibit us from erecting stations in that restricted area you would find these service stations that you see here would be located more conveniently to the motorist in his particular district.

Q I agree you would not expect to find a service station on 16th or 15th or on one of those streets. Those are residential streets. Naturally, it would be on Jasper Avenue.

A That service station we erected there was the first or second service station on the highway. The same thing applies to Government regulation, governing licences and the reason they have not been used.

Q I do not want to labour this thing, which is just as worrying to me as it is to you, but I want to give you an opportunity to explode the myth, if it is a myth, that there is too much service station distribution. Perhaps there is nothing in it at all, but I am just suggesting to you if you do not put the props and keep the props under these service stations they would fold up and perhaps then we would have a less numher of service

stations which might result in decreased costs. Perhaps it would not. I do not know anything about it. But I would like you to give your views to the Commission?

A You might say there are too many drug stores and too many grocery stores.

Q This Commission is only set up to investigate the petroleum industry?

A These particular drug stores and grocery stores and so forth they are making a livelihood for somebody, regardless of whether it is just a living or better than a living. I will say this, I do not consider, as I said in my evidence submitted, that the industry does have as many service stations as some people would lead you to believe. In other words, as I said, only 10% at the most of the total retail distribution in the Province of Alberta, and that applies to the three Western Provinces, is owned or controlled by the industry. Now, if there are too many retailers, a man doing business for himself who has to supply his premises and buy the equipment to do his business, we cannot control that. In other words, if there are too many they are owned by individuals and all we own does not exceed 10%.

Q You have suggested something there to me, and see if there is anything in it. I build a service station, dealing with a private individual and not the British American or the Imperial. But I enter into an arrangement with an ordinary individual to build that service station and I am not, as his tenant, in as good a position as a tenant of yours. He is not interested in the sale of gasoline. He would let me fold up pretty quickly if I could not pay him all these things, his taxes, if he had any and I suppose he had, and his depreciation and these other things.

If I could not pay him he would simply let me fold up. Now, if I was fortunate enough, or unfortunate enough, to make an arrangement with you, you would keep me there as it appears from this record, because you would not charge me as much as the individual I have just given you an instance of?

A We might for a while and then if we found it was unprofitable to you and in addition unprofitable to ourselves, we would close it up.

Q That record would be disclosed in there. You have closed up----I am getting at whether there has been some closing up, perhaps you have, and there may be----

A We only have, I think it is, 28 in the whole Province. My view is this, that not only in this Province but other Provinces you have regulations governing and controlling the number of retail outlets that there should be in the Province of Alberta, which regulations I understand have been in effect for a long time.

Q Since 1936?

A And, as I say, those regulations have not been enforced. As a matter of fact, there have been, I think, several hundred new outlets established in the Province of Alberta since your regulations became effective. Is that right?

Q I am sorry. What did you say, I was not listening?

A I say there have been several hundred new outlets established in the Province of Alberta since your new regulations became effective in 1936. As a matter of fact, I understand that you welcome anybody to come in and make further distribution, and glad to have them in the Province.

Q We will have to hear from them about that. I presume there

have been licences issued since the regulation came into force. I take it most of your stations were built before that licencing Act was passed?

A I think it would be very interesting to have the number of retail licences that have been granted since the Act became effective.

Q I am certainly getting all the suggestions from you that might be of interest to the Commission?

A You have that information at Edmonton.

Q I think we have chased that around sufficiently. Now, Mr. Miller, what is your view as to the justification for the 2½ cent differential between standard and Ethyl gasoline?

A As I said yesterday, when I was asked by Mr. Chairman, I said it did not make very much difference as far as I could see to this industry whether we sold Ethyl gasoline or not, except that there was a definite demand for it, and that particularly applied to motorists coming in from other Provinces and more particularly United States tourists. I said at that time that we did not make any additional profit out of Ethyl gasoline than we make out of the standard brand. In other words, the ingredients used and the additional facilities, both manufacturing and marketing, take care of the differential or rather absorb the differential that is charged.

Q That is what I mean. You say the 2½ cents is literally or practically a necessity on your part, is that what you mean?

A That is right and Mr. Bronsdon can give you further details of how that is made up if you wish it.

Q That is very interesting if this 2½ cents is all taken

up in extra manufacturing costs and extra marketing costs?

A Yes.

Q That is the point?

A Yes.

Q Now, there is at the present time a 4 cent differential between 3rd structure gasoline and standard gasoline in Calgary and in certain parts of the Province. What is, in your opinion, the justification for the 4 cents?

A Well, the majority, I think, of the area where the 4 cent differential exists is south of Calgary. There is some north of Calgary but not very much. The majority is in the south here.

Q It goes to Red Deer?

A That is due to competitive conditions and particularly applies to the importations from Montana. The allowance or the differential is 2½ cents, but additional allowances have been made; in other words, to meet competition where we feel it necessary. As I said the other day, we cannot pull out of any one part of the Province. We are in thre and we have to stay there and we have to meet competition and market our goods against competition.

Q Yes, I know. We know it runs up to and just includes the City of Red Deer in the north and runs out in the east as far as Hanna. But what I am putting to you is what is the justification from the standard of qualtiy and the ability of these two gasolines for the spread being 4 cents. That is my question.

A Well, I can say this, that 3rd grade structure is being sold at a differential below "Q" brand or standard brand and is naturally of an inferior quality.

Q Yes?

A And can only be used in old type cars. About the only people who should buy it are people that have got an old type car and are looking for a low priced product. For tractor use it is quite satisfactory.

Q Mr. Cottle calls my attention to the fact there is only, in Montana, only a refinery differential of about 1 cent or 1½ cents between 3rd structure and standard or "Q" brand, standard non-leaded gasoline. Why the difference there in the-----

A It does not make any difference as far as I can see what the differential is in the State of Montana. We have a gasoline below the standard brand and the basis should be what the actual price is and not the differential. As I pointed out, that white gasoline is coming into Alberta at 5½ cents per gallon. You said you had further evidence from Trimble that he was buying it at 5 cents per gallon. So the differential does not mean anything when it is below standard brand.

Q If there is such a need to pull down 3rd straucture, why should not there be the same need to pull down standard gasoline, ever so slightly, in Alberta. In Calgary. By reason of competition from Montana?

A I said yesterday our price of standard brand gasoline per Imperial gallon is 1½ cents lower in Calgary than it is in Montana, and as I have said right along, I do not see how we can possibly make these prices very much lower, if any.

Q I would like to explore this with you. I think, perhaps, it is important. You say you have a 4 cent differential in a large part of Alberta between 3rd structure and 2nd?

A Mainly in the south area.

Q Yes, and it is due to, certainly due to some extent to Montana competition?

A As you said yourself, Mr. Frawley, all the Montana competition was coming in is south of Calgary.

Q Then it is due largely to Montana competition that this 4 cent differential has been required?

A Considerably, yes.

Q Now, then, if we find the two products fairly close together in price in Montana at the refinery, then why are they not closer together in this Province?

A They were close together, Mr. Frawley. They were 2½ cents largely. If you look at the "National Petroleum News" you will find that 3rd structure or white gasoline in the State of Montana sometimes, as Mr. Cottle says, has been 1 cent or 1½ cents below the standard price gasoline. But if you look at the "National Petroleum News" of recent date you will find where the differential between white gasoline or 3rd structure gasoline in the State of Montana and the 2nd grade is as wide as it is in the Province of Alberta.

Q I am talking about the refinery price in Montana, and I am pointing you to the narrow differential between the standard gasoline and 3rd structure gasoline in Montana at the refinery?

A I am talking refinery prices.

Q And I say that there is a wider differential in Alberta between 3rd and 2nd than would seem to be warranted when it is chargeable in large part to Montana competition, that is all?

A Have you the "National Petroleum News" that we brought over this week. The "National Petroleum News" is the price of authority. June 28th.

THE CHAIRMAN: 1939?

A 1939, Sir.

Q MR. HARVIE: Exhibit Number?

A Exhibit No. "464". The regular grade gasoline in Billingx, Montana, was 12.5. At Butte, Montana, 14 cents.

Q MR. FRAWLEY: Those are tank waggon?

A Yes, Sir. Great Falls, Montana, 13.5; Helena, Montana, 14.5; Command gasoline, which is their 3rd grade, Butte, Montana, 11 cents.

Q What differential is that?

A That is 3 cents below the standard brand. Great Falls, Montana, 10½ cents, which is 3 cents below the standard brand. Helena, Montana, 13½ cents, which is 1 cent below the standard brand, and these are U. S. gallons.

Q MR. FRAWLEY: Has that anything to do with the 4 cent differential that is charged between 2nd and 3rd structure gasoline in Alberta, for instance?

A Our differential on 3rd grade structure has been 2½ below and the only places where it is greater than 2½ below is where we have had to meet the rotten competition from Montana.

Q Something compelled you to establish a 4 cent differential at Lethbridge between 3rd structure and standard?

A I have said what it is.

Q And in Montana the refinery differential between those two structures is 1 cent and a half?

MR. HARVIE: He just made it over 3 cents.

You mean the Montana refinery?

MR. FRAWLEY: The Montana refinery.

A. H. Miller.

MR. HARVIE: It is over 3 cents. Over 3.6 cents.

MR. FRAWLEY: Those are tank waggon prices. I am talking about refinery prices.

MR. HARVIE: Where do you get your refinery prices?

A We have not got any such thing as refinery prices.

MR. FRAWLEY: Mr. Dempsey's evidence.

A I would say if the tank waggon price is 3 cents below, as I see in the "National Petroleum News" in the State of Montana, below the standard brand, if they have a refinery price the refinery price would have the same differential below the standard brand.

Q Mr. Dempsey has not given us any quotation on non-leaded standard gasoline. Mr. Miller, you have a price that you give your jobbers in Calgary, the Great West Distributors, 11¼ cents price at Calgary?

A That is right.

Q Now, the evidence is that the Texas Company refinery price is 7½ cents on Imperial gallons and a calculation on the importation will show you that the laid-down cost of that gallon in Calgary is 12.93 cents.

MR. MACLEOD: Standard?

MR. FRAWLEY: Fire Chief, standard gasoline; The duty being 1 cent, the freight to Calgary being 3.75 cents, and the sales tax being .68 cents, or the laid-down cost at Calgary is 12.934 cents. Now, you sell gasoline, that same gasoline, comparable gasoline to the Great West at Calgary for 11.25 cents. What is the justification for having that jobber price so low?

A Well, it is a case, I suppose, - there are two or three reasons; one is that I consider the Great West Distributors are jobbers larger than the average jobber in Canada. In other words, as a jobber they are a bigger jobber than the majority and, therefore, as I said the other day, I consider the jobber buying one million gallons as against the man buying 250,000 gallons is entitled to a better price in the first place. Secondly, the Great West Distributors, or any jobber of his calibre, could if he so wished build his own refinery and manufacture his own products. If he did not do that there are plenty of others probably would like to associate themselves with him and they would have a refinery anyway. Therefore, we feel that that additional throughput is of some assistance to our refinery costs and we set our price, taking all things into consideration. Particularly as the Great West Distributors have bought 100% of their requirements from us for a long period. Furthermore, they could have left us on many occasions, as I said, and gone to the State of Montana and bought products for less. But being desirous of handling a product that is made in Canada and being desirous of having a product with a uniform high standard specification, notwithstanding the fact they could have bought for less, they have stayed with us and paid us more.

Q The reason I put the 7.5 Imperial gallon refinery price to you was that I was presuming that the Great West Distributors could not buy any better than the Texas Company of Canada can buy in large quantities on specification gasoline. Do you think they could and if so from what refinery?

A I do not say they could with all products, but they certainly

could with a lot of their products. As I say, 50% of their sales are no doubt similar to ours, or more, possibly 60% of their sales are to farmers, and that would have been a product they could have bought at least at lower prices, which the evidence has proved.

Q Well, what we have then is that you look at the price at which they could profitably import and you discount that to keep him from building his own refinery. That seems to be what-----

MR. HARVIE: Who gave you that idea?

MR. FRAWLEY: Just a minute ago Mr. Miller said he was concerned with him building his own refinery.

A I did not say I was concerned with him building his own refinery. I said he could.

Q Is that why you gave him something better than he could import it from Montana for?

A Our price to Great West Distributors has been based on general competitive conditions and I cannot add very much more to what I have said regarding it.

Q THE CHAIRMAN: One of the things you are concerned with, and I suppose everybody is who is in any business, is if you can keep down competition by giving them a sufficiently attractive proposal you do so?

A Yes, Sir. We have taken, as I said, everything into consideration. There is a large volume there. If we cannot make much money on it it does help us with our throughput on the products that we sell direct.

Q MR. FRAWLEY: But then you say again unless this question of excessive distribution is just a myth, you give the Great West Distributors a better price, and let me put it to you, than he could get in Montana,

and he promptly puts a distribution system all over Alberta?

A Where did he get his licences from, Mr. Frawley?

Q Well, I mean if that is the only answer then we will have it as such. But I suggest why----

A I think that is a very important thing. You speak about this excessive distribution, as I said a few minutes ago, and yet you have the thing in your hands to control by the regulations as they exist to-day.

Q What you are suggesting seriously is that Mr. Mackenzie's operations could be curtailed by simply denying him a licence here, there and every place?

A And so could everybody else's.

Q That is quite true. That certainly could be done. But I am asking you whether you feel you are in any sense responsible for the wide distribution which Mr. Mackenzie has built up, because you have given him a very fine price on which to operate, a very large margin on which to operate, and a better one than he could get if he went to the only place I know of where he could get his products, and that is the State of Montana.

A I do not agree with you. I said maybe on some products it is not better but on 60% of his business, due to the fact I think that 60% would be farm products, it would be better.

Q You say with regard to 50% of Mr. Mackenzie's purchases he could do better than he could if he buys from you?

A I said he could have gone down on many occasions.

Q Can you tell us now whether he could or not?

A Well, I think the prices that we quoted there indicate very clearly, Mr. Frawley, that had he been buying in the

State of Montana farm petroleum products at the same prices Trimble bought at, he would pay less money in buying there than paying us at our prices, south of Calgary.

Q We may be spending a lot of time about this, but we think it is important. Let us take Mr. Trible's 5 cents, which is 6 cents on Imperial gallons, that Mr. Mackenzie would pay for his 3rd structure gasoline. He pays 1 cent duty, that is 7 cents at the Border. Then .56 cents sales tax, 7.56, and freight, 3.75 to Calgary, that is 11.31 cents, Mr. Mackenzie would be paying. That would be his laid-down cost at Calgary for 3rd structure gasoline?

A If he paid freight, did you say?

Q 11.31.

A If he paid freight, did you say?

A Yes, 3.75 cents freight.

A I have already said the freight is too high, and Mr. Madkenzie does not ship by freight. All his requirements are transported by truck. And whilst your price you speak of is f. o. b. Calgary I said south of Calgary. If you took that price at the Border you might be paying too much.

(Page 11,220 follows.)

Q 7.56 cents is after paying duty and sales tax and converting it to Imperial gallons, 7.56 cents at the Border?

A All right. Now if he took my product----

Q At the refinery, I am sorry, at the refinery, but duty paid and sales tax paid?

A Another 40 miles, that does not amount to a great deal.

Q No?

A If he bought his product at Calgary and took it down there to Lethbridge there would be a difference, I think of possibly a cent and a half or 2 cents, would there not, in buying our product and taking it down to that area.

Q First of all have we left Calgary and if so why, let us settle ~~Calgary and go directly~~ to Lethbridge if you wish?

A But I said south of Calgary, Mr. Frawley.

Q He has to have these gasolines you say, he can buy better in Montana with respect to his third structure gasoline, now you do mean in the whole of the Province?

A I said this, that I estimated 60% of the Great West Distributors' sales were to farmers.

Q Yes?

A In other words I said they have a greater percentage of farm business to the total than we have.

Q Now what percent of the 60%----

A And as the Great West Distributors operate not only in Northern Alberta but in Southern Alberta, and as its distribution in the South is as to the North, I showof 60% at least, if not more, on many occasions for quite a long period he could have bought in the State of Montana and

saved money in so buying as buying from us.

Q You are back to that general statement. I took Mr. Trimble's 5 cents a gallon and tried to work it out, now what do you say about the 11.31?

A You make it 7.56 at the refinery door.

Q 7.56 and 3.75 cents freight?

A Well it would possibly be 8.56 at Lethbridge. Therefore if he bought my product at the price you mentioned there f.o.b. Calgary and transported that down to Lethbridge as I said he would be paying a cent and a half to 2 cents more for our product than he is for theirs. Now I know that to be the fact because the Great West Distributors are withdrawing and have withdrawn from some products they are selling and have been selling in the Southern part of Alberta; in other words they are gradually pulling out of the farm products and they are selling standard products only in the South part of Alberta because they lost money on what they sold there.

Q We will follow it up when we get the freight rates.

THE CHAIRMAN: Just what are we after?

MR. FRAWLEY: An analysis of the prices charged the jobbers by this company at Calgary or anywhere in the Province of Alberta with a view of finding out whether those prices are less than the same jobbers can purchase elsewhere and the elsewhere being Montana in all likelihood and that is all, Mr. Chairman; in other words, whether or not, it comes to this question of the jobber, which has got to be explored and which I heard yourself mention from time to time, that the position of

the jobber has to be explored and I make the suggestion to the witness that the Great West Distributors, and I made the same suggestion to Mr. Halverson, that the jobber prices which are being quoted, set up the jobber, if I may use that expression, encouraged him to duplicate the facilities which are already in existence. It is that and no more, and it is something which has to be commented on by other witnesses but it seems to me it is the ground work, it is fundamental it seems to me. Now I think it might be-----

THE CHAIRMAN: You are going first of all to explore it with the witness and the witness says at the moment, which would seem to be pertinent, that there should not be any more jobbers, then why give them licenses.

MR. FRAWLEY: Yes, and why give his company any more licenses or the Imperial Oil.

WITNESS: I wish----

MR. FRAWLEY: You see, Mr. Chairman, the licensing branch of the Alberta Government, according to this witness, could decide this momentous question.

MR. HARVIE: Three years ago.

MR. FRAWLEY: Yes, and could decide that there should be no jobbers in the Province of Alberta and then give them no more licenses but my respectful submission is that is one reason why the Commission has been charged with exploring it and Mr. Miller says "Just tend to it yourself and end this all", but that in my submission is just too large a statement-----

A I did not suggest that. I did not suggest you cancel any licenses. I said you had the control in your hands to not

issue any further licenses, since 1936, and I said also there have been several hundred issued since that time.

Q I simply say------

A It is really a case like what we saw in the Maritime Provinces where they have regulations and they were not being enforced; in other words there is not one regulation down there that I know of that is being enforced.

Q MR. FRAWLEY: Mr. Miller, so far as I am concerned, this Board is appointed to explore everything in connection with this industry, including the distribution, everything, everything, but I am putting it to you, I am accepting what you say that the Provincial Licensing Department could have settled the problem I am discussing with you now, first of all, if they had considered it an evil, and I am not suggesting it is an evil, I am simply exploring this for the information of the Commission and I make the suggestion to you that the spread you have given the jobbers has resulted in the setting up of a very great deal of extra facilities. We have not even made the point that the extra facilities affect the price so do not let us jump to conclusions?

A I do not agree with you, Mr. Frawley, and I do not think that your statement that the price to jobbers, as I said the other day, the tank car price prevailing in the Province of Alberta is 3½ cents below the tank waggon price, that is supposed to be the price so far as we are concerned.

Q What price, Mr. Miller, is 3½ cents?

A That is what we set as the basis for our tank car price.

Q Tank car price?

A Yes.

Q How many cars do you sell at $3\frac{1}{2}$ cents under posted tank waggon?

A Not very many, we used to.

Q Of course and------

A We used to but you spoke of this excessive distribution and naturally the wider the distribution or the more duplication that you speak of, the more competition I think that the, since 1936 this excessive distribution if any and particularly new comers into the business, new companies coming into the business and a lot of those I referred to, the in and out companies that are here today and gone next year, could have been very very much eliminated by the regulations which you have in effect.

Q MR. Miller, I wonder if I might make a statement. Perhaps you are reading more into my questions than is there. Let me assure you that I have come to no conclusion, I am making no submissions to the Commission and I presume the Commission has come to no conclusions at all but one of the things, I hope you understand my position, one of the things the Commission has to explore is the whole picture of the jobber, the whole question of the jobber, everything concerned with him, therefore I have to put before the Commission as much as and as well as I can everything about the jobber. Now let us get on the right track. I am offering no opinion at all as to whether the jobber should be there. Perhaps we should have more jobbers, I just want to explore it and that is all, I am very dispassionate about it. I have no views. You may not be dispassionate and you may have views about it and if you have all right but it is not right, it would not be right for me to have, and I am suggesting that you are giving

to Mr. McKenzie, I am just suggesting to you, that he does flourish by virtue of the fact that you have given him a better spread and you have, you are even, then, in a sense responsible for this excessive distribution and that is as far as I go, whether it is a good thing or bad thing I know not,

A I do not know whether you have developed the business of the Great West Distributors or whether they are coming here to give evidence or not but I will say again----

Q Yes?

A That if they are I think they will be able to tell you the same as I have told you that for the last two years in particular, which has accelerated month by month, they have gradually pulled away from making sales South of Calgary except a few of the standard brand and Ethyl gasolines, they have given up the sale of distillate, they have given up the sale of tractor gasoline in that area to a great extent. I do not say they have pulled out entirely but they have pulled out and they are only selling just what they have to sell and they hope to goodness they do not have to sell it. That is their statement to me.

Q THE CHAIRMAN: To get down to what I conceive to be the meat of the thing, are jobbers essential to the marketing of petroleum products?

A Speaking----

Q Whether you did sell by McKenzie or did not, "why jobbers", there may be good reason for them and if so what are they. If you are capable of marketing the goods yourself and you are doing it all the time-----

A Our policy, Mr. Chairman, throughout Canada has been as

much as possible to market direct and we consider that we should maintain that type of policy, direct marketing, as long as you have proper facilities and you are able to give the services to the community, that should be sufficient.

Q That is to say, you see no need for the existence of jobbers but now so long as the jobbers are allowed to function, I take it that you want to keep your position in the whole field comparable to that of your competitor?

A Yes.

Q If they are doing business through jobbers and thereby getting a greater volume through the activity of those jobbers, do you want to do the same?

A Yes.

Q But if they could be eliminated entirely, is the industry harmed or is it not?

A I do not think it would be harmed, sir, becuase if they were not marketing why that distribution would be sold direct by the intregated companies such as our own.

Q So what useful purpose do they serve?

A Well I cannot see that there is any useful purpose.

Q MAJOR LIPSETT: You leave them to justify their own position without you attempting to do it?

A That is it.

Q THE CHAIRMAN: That is all they will do, is justify it, but I want to know from you whether you believe or not that their existence is justifiable?

A As I said, Mr. Chairman, Our policy, and which I think is good, has been to market direct and for instance in the Province of Alberta we have refrained from selling other

jobbers. The only main jobber we have in this Province is the Great West Distributors.

Q I take it that your competitors sell to jobbers?

A Yes.

Q And the jobber cannot increase the consumption in the Province I take it but the actively alive jobber might buy from a competitor of yours and reduce your volume I take it?

A Naturally, sir.

Q So you not only have your own jobbers but you have been selling to them to keep up your volume and keep your position in the field?

A Just that one jobber.

Q Your relative position?

A Yes; in other words I fell that whilst we sell as I said the Great West Distributors at a price of 11¼ cents, standard gasoline, Calgary, whilst we do not make but very little if anything out of it, it does assist us in that throughput of our plant and helps to reduce somewhat the cost of our own sales that are sold direct and if we did not have that somebody else would get the beneift and no doubt in addition eat into our direct sales by the use of that jobber maybe at lower prices, by selling at lower prices than we can.

Q As I understand you as a marketing man, as a marketing man, you say under existing conditions "We find it desirable to sell to the jobber", but as a marketing man you say that you can think of no reason why they are essential to this service of the disposition of oil?

A No so long as-----

Q If they can be eliminated?

A Not so long as there is ample distribution to supply the requirements and the service necessary in the Province.

Q. And you believe that to be so, you believe the companies can function?

A I do, sir.

Q Satisfactorily without the intervention of jobbers?

A I cannot see why not.

Q And so you say that if this be an evil, without giving it, not perhaps using that word which might have a sinister meaning, but if this be adding to the cost of gasoline, it lies in the hands of those who control the licensing to put an end to it?

A Yes, that is what that regulation I think was put into effect to do, to curtail excessive distribution or unnecessary distribution, was the reason for the regulation and my understanding was that it was simply then a case of justifying further distribution was necessary by necessity or convenience.

Q And if you can get your products, if you did not have to sell any part of it, if no one could sell any products through a jobber, then that ought to effect the cost to the consumer, should it not, you would be selling more economically, if you sold the total volume you are selling today and sold it direct, you would be selling it more cheaply?

A I do not think so very much because it is the over-all with us.

Q You would get the same volume and you would not have to make a cut to the jobber, why couldn't you sell it more cheaply?

A Well when we take our marketing costs off the tank waggon

price as we have shown here, I think they pretty well take care of that difference between the tank waggon and the differential that the Great West are getting from us to a great extent. You have certain fixed charges and so forth that you are not going to eliminate even if you had more volume of business, that is direct business.

Q That is right?

A For instance that price is $11\frac{1}{4}$ cents as against the net tank waggon of $15\frac{1}{2}$ cents in Calgary and our marketing cost is 4.23, that is our direct marketing cost.

Q MAJOR LIPSETT: Yes, but is this not a refinery profit, supposing you sold your same volume that you have today and instead of getting $11\frac{1}{4}$ for say one-third of it and your $15\frac{1}{2}$ for the remaining two-thirds, would you not be able to reduce the refinery price if that proportion of that $11\frac{1}{4}$ went up some place between the two?

A I do not think it would make very much difference.

Q Then what is the reason behind your view, Mr. Miller, that the jobber should be eliminated?

A Well I do not say he should be, sir. I said that if he was not there we could sell the products direct providing we had the distribution and the facilities for so doing.

Q But would that mean anything more than the suggestion is that by regulation or by legislation, the Great West Distributors should be put cut of business so that your company would get the beneift, if there is no benefit to the consumer?

A No sir. My thought on the regulations as existed, Govern-

ment licenses, was this that if that was maintained rigidly from the year 1936 that as your consumption had increased or will increase in the future and with the extra number of outlets it would make the various outlets of the distribution, retail and everuthing else, possibly more economical and might assist in cutting costs somewhere after a certain period of time had gone by. Naturally if you have fewer outlets you are going to have greater volume.

Q MR. FRAWLEY: Of course I would like to have the Commission understand the significance behind that. You suggest as of 1936 the marketing system in Alberta should have been frozen and then in the year 1936 these Alberta companies coming along, Mr. Mayland and Mr. Plotkins, Mr. Becker, just do not give them licenses at all; 1937 just comes around and just do not give them licenses at all, you want more stations, treat you the same way of course , just let us understand what would be the result in freezing the situation as it was in 1936?

A Well what was the reason of the regulation?

Q Well now that is another thing?

Q MR. MACLEOD: Does not the jobber create a demand and assist in creating a demand, the demand comes to you no doubt as buyers, but is he not a factor, another factor in creating the demand, in other words, why sell him at all and create opposition to yourself?

THE CHAIRMAN: That is what I would like to explore.

MR. MACLEOD: They say they must do it in competition, and that is the question, only it runs it back

further-----

THE CHAIRMAN: Certainly.

MR. MACLEOD: You cannot imagine them, unless there is some good reason for doing it, selling to somebody to create competition to themselves, you just put the question back to the Imperial, why does the Imperial do it, it seems to me the answer in our brief is that all these people create, co-operate to create an increased demand.

THE CHAIRMAN: Yes, what I would like explored is this, the jobbers make X dollars out of this industry, they are not operating at a loss, they are making a profit or they are not going to stay in business, they make X dollars out of it and we are told by this witness that there is no reason why the companies should not operate themselves direct. Now if they took out of their pockets that, which permits of the jobber making X dollars and they could do this themselves, why should not that body which must be deemed to be,-and I do not use the word offensively,-a parasite if that view be accepted, be eliminated and the public get the benefit or the producer or somebody get the benefit of the X dollars. Now Mr. Macleod suggests that they stimulate consumption. Well at the moment I cannot imagine anyone being talked into filling his tank with gasoline if he does not need it for his car and if he has a car he has to have it----

MR. FRAWLEY: And when the gasolines are all standardized by the industry, then it does seem to me to be a peculiar situation to imagine that I would go

running around to satisfy my demand, instead of taking it at the first place I come to.

MAJOR LIPSETT: I suppose Mr. Macleod is putting it a little differently to that, he is putting it that if he has a jobber he is stimulating the demand for that particular commodity, that particular brand, as distinct from the general sale of gasoline as such.

THE CHAIRMAN: Quite so, one can see, it depends on how small a jobber you get, whether it will be an advantage to you over your competitors, where all have jobbers, but that does not touch the point whether they should be eliminated or not, on the principle that there will be only so much gasoline sold to so many cars in Alberta anyway, you create a demand for boots perhaps by talking people into buying them but you cannot surely, except as against each other, persuade people to use more than the total amount of gasoline which their cars will consume in the usual operation.

MAJOR LIPSETT: Might this be one way of putting it, Mr. Miller, if you can sell at 11¼ cents to Great West Distributors, why should you not make that the price for everybody or some figure near it?

A I think on the overall, Mr. Commissioner, you will see where we might be very glad if we got that price, to everybody.

Q I mean it is the sort of thing that has to be considered by us at some stage and I am just putting it to you, if it was said that the refinery price should be a certain figure based on your jobber's price today and if that was the rule with all companies, would that not give a substantial benefit to the public and at the same time give the same re-

finery cost and profits to the refinery as it is today, by cutting out the additional handling and the additional source of profit in the intermediate stage?

A You see, Mr. Commissioner, that, take your net price at Calgary 15.50 and then we take our marketing cost of 4.25, there is 11.35----

MR. HARVIE: Actually the marketing cost is 4.23 which would leave you 11.27, which you would net back at the refinery, whereas the Great West Distributors, you net back $1.25 or 1/50th of 1 cent per gallon?

A 11.25 per gallon.

Q MAJOR LIPSETT: Does not that bring out the further suggestion that on that basis the Great West Distributors could buy your products and make a profit, if they can do that, that your marketing cost must be too high?

A I do not know what profit-----

Q Either that or that they must be able to market considerably lower than you can?

A I do not know what their costs are, sir, and I do not think I can add very much more to what I have said regarding the jobber's position and it would look to me, I think that the best correction, if any, of the whole picture, could have been made by the regulations which exist which was to curtail licenses.

Q THE CHAIRMAN: Can there be any reason for these companies selling the jobbers at all under any circumstances, other than the reason that you might, you might find the jobbers starting up a refinery and providing you with more competition, is there any other single sensible

reason you can give us for having jobbers; now I am talking about having them, as opposed to there being none at all, not just your company?

A The thing that I can offer is that naturally in a highly competitive field and a highly competitive industry we are desirous not only of holding our percentage and that it is necessary to maintain our costs but if possible to increase that percentage and ,while our policy has always been one of direct marketing, when we operate in any area in Canada where there is an intermediate operation, which I term the jobber, we have to see that we secure our share of that jobbing business in order to take care of our costs on the over-all.

Q Now assume with me that it would be possible to do away with them entirely so that none of your competitors would have a jobber either, just assume that for a moment, can you see any disadvantage to the industry, producers or refiners or consumers, other than that you might find yourselves faced with another competitor in the refining field?

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A I cannot say any more, Mr. Chairman, you say we might find ourselves faced with another competitor in the refining field. Well, do you mean by that he will still have his distribution to supply from the refinery?

Q He might go into the refining business, perhaps. I mean that is conceivable?

A But not marketing. You would say there would not be any?

Q I say you are a refiner now. You are marketing your products partly through jobbers, and I am suggesting to you for your consideration there would be no disadvantage in jobbers being eliminated entirely unless it might be that the jobber that was so eliminated might go into the refining business and be a competitor of yours in marketing his own products that he has so refined?

A We would lose that through-put, and it would no doubt increase our costs if we lose it.

Q Of course that is a risk you run as long as there is any capital in the world anywhere to have a refinery set up?

A That is quite right.

Q It is no more apt to come from the jobber than any other person with surplus capital who thinks the refining business is a good one?

A That is right.

Q MR. FRAWLEY: Mr. MacKenzie then is a potential refiner, even with the price you are giving him. There is the possibility that he has the capital and as the Chairman says he will go and build his fefinery?

A He might.

MR. COMMISSIONER LIPSETT: He might not do that as long as he is getting an attractive price. Now what exactly,

Mr. Miller, have the Great West in Calgary? Have they a dealer system of their own in Calgary similar to the dealer system you have?

A My understanding of the Great West is that they have a certain main bulk plants and then they supply from those bulk plants their distributors with combination, wholesale and retail facilities which are there. In other words, they are run by individuals and they sell wholesale and retail. They have some similarity to the new form of distribution we are putting in. All their transportation is by truck. In other words, they are able to haul direct from the refinery just the same as they would be if they were hauling from Montana direct to their bulk plant, and they unload into those bulk plants by truck and make distribution from there also by truck.

Q They have complete distribution through a portion of the province similar to what the refining companies would have?

A As far as I know, they have...........

MR. FRAWLEY: 137 points?

A 137 points according to the map which you have here.

Q THE CHAIRMAN: Do they duplicate your stations anywhere?

A In some places, yes, and others, they are operating where we are not. It might be 50-50, Mr. Chairman.

Q MR. COMMISSIONER LIPSETT: Do they sell their products under a trade name of their own?

A Yes, they have their trade name, Red Head, for their gasoline, and Red Head Motor Oil.

Q It is a remarkable situation to be in competition with your own jobber or your own product under another name.

MR. FRAWLEY: Mr. Nolan is in competition in lots of places with his jobber.

MR. COMMISSIONER LIPSETT: Would you be up against this problem if you decided to eliminate them? They have everything there except the actual refinery or producing plant?

A That is right, Sir. He is a merketer and not a refiner.

MR. FRAWLEY: That particular jobber disposed of 4,745,815$\frac{3}{4}$ gallons in 1938.

Q MR. COMMISSIONER LIPSETT: He was in business long before 1936?

MR. FRAWLEY: Oh yes. You cannot charge him up to that statute.

Q Mr. Miller, just a question about the Southern Alberta situation. Would it be a great deal of trouble if you would file a statement showing the cost of supplying gasoline through your wholesale outlets in Southern Alberta. That is, cases where you have to actually pay out money in freight rates to get it down there over and above what you are able to get in the posted tank wagon price?

A We could do it, but it is a big job.

Q I think it would be useful, because we have exactly the same thing from the Imperial Oil?

A You know the picture in general. It is simply a case where we are meeting cut-throat competition from Montana, You know pretty well what the allowances are. In fact, I have given you the allowanaes at those points.

Q Well, Mr. Cottle thinks he should have it?

A I have given you the list, Mr. Cottle, of the allowances

in effect at those places. You have your freight rates.

Q If I had Mr. Halverson's Exhibit, I could show you in a minute what I want, but I will be glad to show Mr. Harvie that privately?

A We do not mind letting you have it, but it is a big job to work that back.

Q Mr. Cottle will discuss with Mr. Bronsden what he wishes on that. Now, I would ask you for something that is perhaps not a great deal of trouble, to take your map which is part of Exhibit "442", and superimpose on that map all of your dealer-distributor points, with a little green dot or something, which would show just where your distribution is in those district zones you have been speaking of?

A All right.

Q I think that is all with this exception. I have mentioned it to Mr.Harvie, but I would like to have the statement on the record, the operations of your other jobber, the Bell Refining Company, because after all they are in the position of a jobber, a marketing jobber. You spoke of having one. You really have the Great West Distributors and your own wholly-owned subsidiary, the Bell Refinery?

A You asked us for the financial statement. I gave you the prices that they were selling at in Volume Number 1, and you asked for the financial statement regarding their position, and I said that Mr. Bronsden would let you have that. He has it.

Q There must have been some misunderstanding about that.

I would like as much about the Bell Refining Company as I have for instance from the Imperial on the Maple Leaf, their wholly-owned jobber-distributor. I would like all about it. I only mention it for the purposes of the record. I have given it to Mr. Harvie and asked him to be good enough to have that for us. The money invested, and all about it?

THE CHAIRMAN: That is Mr. Bronsden's picture?

A Yes.

MR. FRAWLEY: Some of it is Mr. Miller's, but I do not want to deal with that now, but I want it made available.

A I am sure Mr. Bronsden will let you have it.

Q THE CHAIRMAN: What do you say is the difference between the cost of marketing facilities - Mr. Harvie was citing figures a moment ago, the cost of marketing through the Great West Distributors?

A Based on the Calgary tank wagon?

Q Yes?

A 15½¢ is our price. 11¼¢ for the Great West.

MR. HARVIE: And leaves a netback of 11.25?

A What is that cost again?

Q 4.23 is our cost?

A 15½¢ Calgary, less our marketing costs is 11.27. We sell to the Great West at Calgary at 11.25.

Q THE CHAIRMAN: How do you account for this narrow margin and the set-up of the distributing system of your own and everything? How is it possible for him unless as has been suggested your marketing costs

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are too high?

A I do not know a great deal, Mr. Chairman, about their operations except that they have a large lubricating oil business. No doubt Mr. Frawley has got the figures on that. And their entire operation is by their own transport. I do not know what lines of merchandise they sell.

Q MR. HARVIE: You do not supply them their lubricating oils and their other lines of merchandise?

A No, the only thing we supply them with is our own refined light oil.

MR. FRAWLEY: Mr. Chairman, you might take it if you consider asking the Witness any further questions that that company is making a nice profit, Mr. Cottle tells me they are, on their whole operation. Well Mr. Cottle says that I should not use any adjectives, but it is profitable.

MR. COMMISSIONER LIPSETT: They may be handling more products.

MR. HARVIE: Yes, and they may be making money on their lubricating oil.

THE CHAIRMAN: I suppose we will hear from them.

MR. HARVIE: And they might just be in the profitable market, Mr. Chairman.

MR. FRAWLEY: Profitable places?

MR. HARVIE: Yes.

A Naturally that is the usual thing for any operator, outside of the companies fully integrated with wide distribution as we have, they always go into where the

greatest potential exists and stay out of the areas where the potential is small.

THE CHAIRMAN: Which would be added reason for their elimination as far as you are concerned.

MR. HARVIE: Mr. Miller, just on that point, would it be necessary for what we might call a fully integrated company, that is those that are operating in Alberta to increase their capital investment to look after the entire business if the so-called jobber business was eliminated?

A Would it be possible for them to increase?

Q Would it be necessary for them to?

A Very little if any.

Q Over the facilities you are already provided with?

A Yes, over the facilities we have.

Q Is it the case that some of the jobbers if not the majority of them really started up in business when your gasolines were being brought in to the West from the States? Or have some of them started up since we have been more or less self-contained from the refining and production standpoint?

A I think the biggest increase has been during the past eight years, and more particularly during the past three years.

Q THE CHAIRMAN: Have they a useful purpose to serve in keeping the element of competition alive and active. That is to say, if the refiners in Alberta were asking unreasonable prices for their products, might not the jobber play some part in saying "All right,

we will bring it in from elsewhere, from Montana?"

A I do not think they serve any purpose there, Mr. Chairman, because as far as our company is concerned, our policy is to market the best quality for the lowest price. I think the statement that we have submitted in connection with our marketing costs together with those that Mr. Bronsden is going to submit, will be very indicative of that.

Q MR. FRAWLEY: Mr. Miller, just following what the Chairman said a moment ago. Have they not other than that one threat that they might come in and build a refinery they have no real threat that they will go elsewhere and get it cheaper and bring it in at a lesser landed cost than your prices?

A I do not get your point.

Q The Chairman said to you a moment ago, are they not perhaps keeping alive the element of competition, and might they not say to you "We will go elsewhere. You just give us this price or we will go elsewhere and get as good a price or a better price." Can thay do that effectively with your company?

A That would seem the only thing to do. I think that is natural anyway where there is competition regardless of what the merchandise might be. And as I have said to you there, notwithstanding the fact that that is the best price we have given them, they could have bought for less their entire requirements for south of Calgary, for less money than we have sold them for as far as farm products are concerned. Referring to distillate and tractor gasoline.

Q Then we are back unfortunately to where we were a short time ago. They certainly cannot bring standard gasoline into Alberta at any better price than for instande the Texas Company of Canada is paying?

A They could have done on many occasions, Mr. Frawley, in the last two or three years.

Q You keep emphasizing that so I guess there is some point in it. But I am talking about today. Today they could not, that is surely so?

A You are basing your statement, I assume, when you speak of the price the Texas Company are importing it to Canada.....

Q Just because it looks like a low price, 7½¢, compared to anything I have seen?

A So far as the information I have, it may be that is the Texas price but the other companies are operating in Montana besides the Texas and have been selling lower than the Texas.

Q Selling standard gasoline at less than 7½¢?

A Selling standard gasoline.

Q Let me tell you, that is 6½¢, the price in U. S. gallons?

A Gasoline, Mr. Frawley, does not have to be leaded to be standard gasoline.

Q Well, any gasoline. I quite agree. But I do not care. we will go back to your Exhibit. You sent a man down there but I do not think he got any non-leaded prices at all. The leaded prices he got were 7¢ and 8¢?

A Well, as I said, gasoline does not have to be leaded to be standard gasoline.

Q It certainly does not. But we have no information about that.

Do you say non-leaded gasoline can be bought from the refineries in Montana at less than $6\frac{1}{4}$¢ a wine gallon?

A I do not say non-leaded gasoline can be bought. I say I believe in the last two or three years that standard gasoline could have been purchased from refiners in the State of Montana at a lower price than $6\frac{1}{4}$¢ that you refer to that the Texas Company pays. And in that picture we are going to draw for you I hope to be able to illustrate that.

Q THE CHAIRMAN; I suppose after all Mr. MacKenzie is the most useful man to tell us the useful purposes that the jobbers serve?

MR. FRAWLEY: And the North Star, because they are even bigger.

A I would think so, Sir.

Q THE CHAIRMAN: But you see that is just telling their side of it. I want the company's side, the marketer, the refiner and marketer. If they should be eliminated what harm would happen to the industry or the public or anyone else. Is there not a saving necessarily?

A I think there should be a slight saving but it would take time to figure out what that slight saving might be.

Q MR. COMMISSIONER LIPSETT: Unless there was a saving, Mr. Miller, from my point of view we should not suggest eliminating the jobber unless it is going to give a cheaper commodity to the public?

A I do not know, Mr. Commissioner.

Q Would that not simply be benefitting one company at the expense of the other?

THE CHAIRMAN: Surely every operation that

you have in connection with a commodity that costs money is an inefficient operation, if it is unnecessary, and adds some way to the cost of the product. I am a long way from saying it is unnecessary. We will no doubt hear and perhaps be quite convinced that jobbers are entirely necessary from those who are jobbers. But in the meantime the man who is employing the jobbers should know whether or not they are essential from his standpoint and not from the jobber's standpoint?

A I am not employing him. He runs his own business.

Q When I say employing him, you are marketing some of your products through him?

A He buys from us.

MR. FRAWLEY: Well, that is all.

THE CHAIRMAN: It is the old story of the middle-man. All right, thank you very much, Mr.Miller.

MR. HARVIE: I now have the information, Mr. Chairman, to complete the information asked for in Volume 3, Exhibit "468" as to the gallonage refunded for the calendar year 1938. Mr. Frawley has been good enough to obtain that by wire from Edmonton.

THE CHAIRMAN: What book do we change, and where?

MR. HARVIE: It is to be added to Volume 3 on the last page.

MR. COMMISSIONER LIPSETT: The second-last page, is it not?

MR. HARVIE: I think it is on the last page.

MR. COMMISSIONER LIPSETT: Oh yes.

MR. HARVIE: On the first line, the year 1938, Consumption in Gallons, Total Taxed Products is 73,725,000. We go on to the gallonage refunded and that is blank. That should be 5,265,012½ gallons.

MR. COMMISSIONER LIPSETT: That is just around 5¼ millions, is it not?

MR. HARVIE: That is correct. As you will note, that is a large decrease from the preceding year which was some 19 million.

MR. COMMISSIONER LIPSETT: Then the figure this morning, Mr. Harvie, may be struck out?

MR. HARVIE: Yes, entirely.

MR. FRAWLEY: Mr. Bronsden is the next Witness, and could hardly more than get started. There might be some purpose in his filing his material if there is any value in us seeing it before he talks about it. But I leave that to Mr. Harvie, as I have not seen it at all.

MR. HARVIE: Mr. Bronsden says he thinks possibly he would prefer to present it in the usual way while in the box.

THE CHAIRMAN: All right. 9 o'clock.

MR. HARVIE: Mr. Miller, I presume, is released?

THE CHAIRMAN: Yes. We have nothing more from Mr. Miller. Do you require Mr. Miller?

MR. FRAWLEY: I do not think so.

THE CHAIRMAN: Mr. Nolan. I did not ask you if you wished to ask Mr. Miller any questions.

MR. NOLAN: No, thank you.

THE CHAIRMAN: I am sorry. Mr. Macleod?

MR. MACLEOD: No, thank you.

(At this stage the Hearing was adjourned until 9:00 a. m. 14th of July, 1939)